

# 2013

FISCAL YEAR 2013  
UNITED STATES ARMY  
CORPS OF ENGINEERS - CIVIL WORKS  
ANNUAL FINANCIAL REPORT



SERVICE TO THE  
NATION, STRENGTH  
FOR THE FUTURE



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# SERVICE TO THE NATION, STRENGTH FOR THE FUTURE

FISCAL YEAR 2013 UNITED STATES ARMY ANNUAL FINANCIAL REPORT



**1** A Soldier negotiates a water obstacle during pre-mobilization training. (New York Army National Guard Photo by Spc. Harley Jelis) / **2** A girl gives her father a long awaited hug as he returns from a nine-month deployment. (Photo courtesy of the U.S. Army) / **3** A U.S. Army sergeant and tank gunner checks the battery box and connections on his M1A1 Abrams tank. (U.S. Army by Sgt. Ken Scar, 7th Mobile Public Affairs Detachment) / **4** Soldiers clean an AH-64D Apache after a training exercise. / **5** Providing security during a counter-improvised explosive device (CIED) training exercise. (U.S. Army Photo by Gertrud Zach) / **6** Pulling security during a senior leader engagement in Afghanistan. (U.S. Army photo by Spc. Alexander Naylor, Released) / **7** Performing a pre-flight inspection on an RQ-7B Shadow. (U.S. Army photo by Spc. Margaret Taylor) / **8** A Soldier tests his 'swiss seat' while rappelling. (U.S. Army photo by Sgt. Keith Rogers) / **9** A platoon sergeant assembles small arms during competition. (Photo by Capt. John Farmer) / **10** Soldiers attach the hook during sling load operations. (U.S. Army photo by Visual Information Specialist Markus Rauchenberger)

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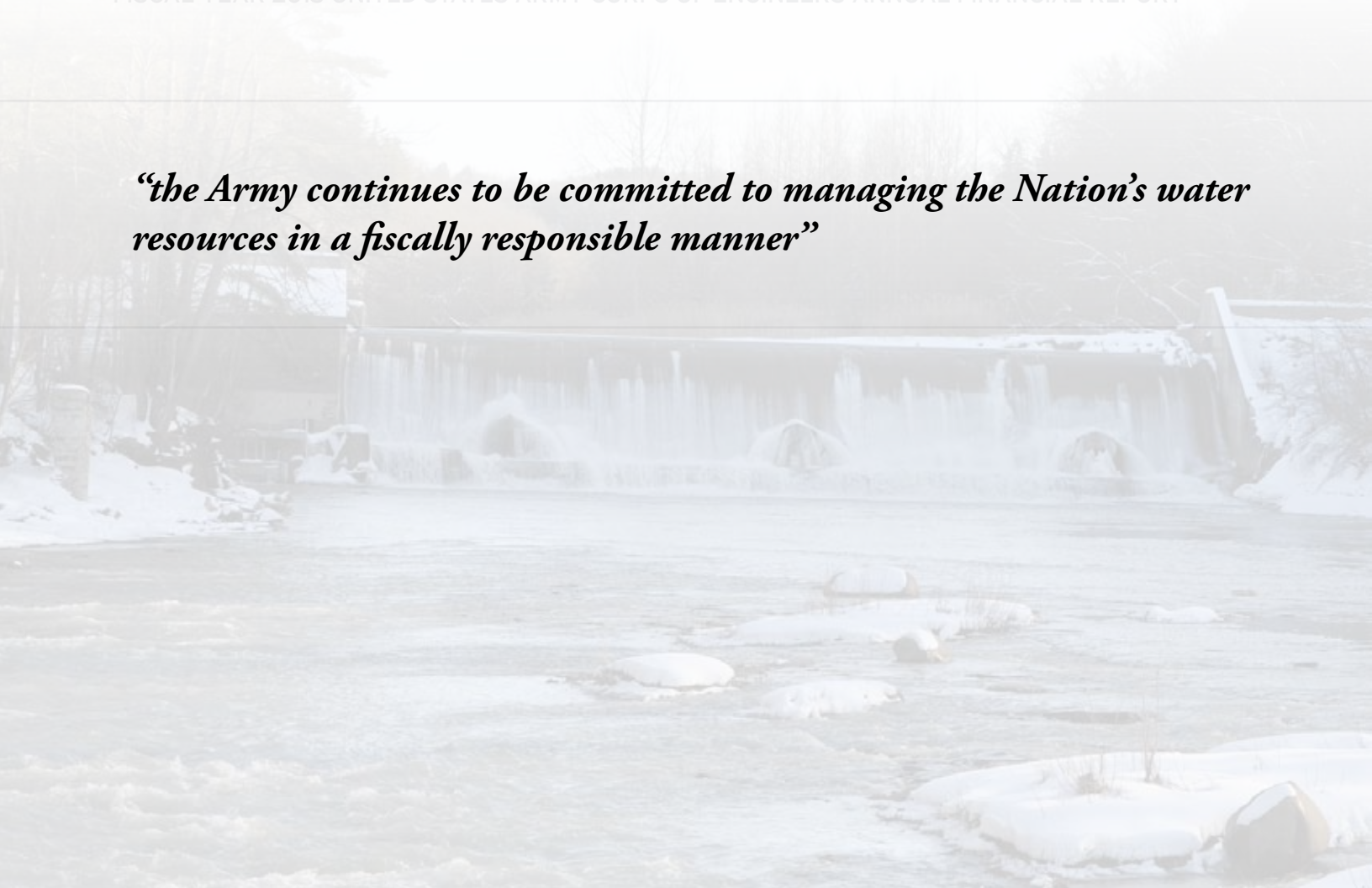


2013

# SERVICE TO THE NATION, STRENGTH FOR THE FUTURE

FISCAL YEAR 2013 UNITED STATES ARMY CORPS OF ENGINEERS ANNUAL FINANCIAL REPORT

*“the Army continues to be committed to managing the Nation’s water resources in a fiscally responsible manner”*







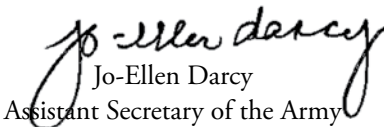
The U.S. Army Corps of Engineers serves the Nation as one of the world's premier public engineering, design, and construction management agencies. Minimizing flood risk, facilitating commercial navigation, and restoring degraded ecosystems are a large part of what the approximately \$5 billion annual budget for the U.S. Army Corps of Engineers delivers for the Nation each year. This investment in water resources is critical to the safety, security, and economy of our great Nation.

Over half of the Army Civil Works program is focused on the operation, maintenance, repair and replacement of major navigation, flood risk management, including dams and levees, and hydropower infrastructure systems as well as providing proper stewardship and recreation opportunities for the public. A large portion of the Army Civil Works program is also focused on constructing dam safety projects and large scale ecosystem restoration projects.

In a continued effort to maximize taxpayer dollars and return the highest value to the Nation in terms of economic, social and environmental benefits, the Army has established three focus areas for Fiscal Years 2014 and 2015:

- ★ Deliver planning study solutions in a timely and cost-effective manner;
- ★ Minimize cost, schedule, and scope growth on Civil Works construction projects; and
- ★ Use risk and consequence assessments of USACE infrastructure components to prioritize maintenance.

As is demonstrated in the following pages, the Army continues to be committed to managing the Nation's water resources in a fiscally responsible manner.

  
Jo-Ellen Darcy  
Assistant Secretary of the Army  
(Civil Works)

# SERVICE TO THE NATION, STRENGTH FOR THE FUTURE

FISCAL YEAR 2013 UNITED STATES ARMY CORPS OF ENGINEERS ANNUAL FINANCIAL REPORT

*“continual hard work and commitment by USACE employees  
our financial business process led to our sixth consecutive “clean”  
unqualified opinion”*



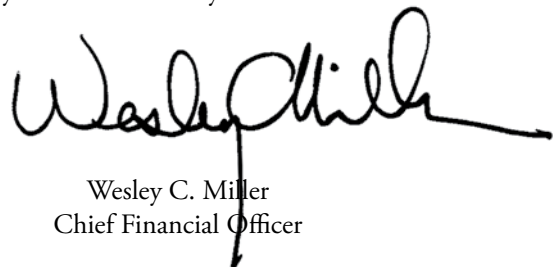
The United States Army Corps of Engineers (USACE) Civil Works Annual Financial Report highlights our financial position and results of operations for Fiscal Year (FY) 2013. Through USACE's commitment to our financial business processes and strong devotion to accountability, we provide reasonable assurance over the reliability of our financial reporting for the approximately \$17.9 billion of FY 2013 funds obligated for our Civil Works activities.

FY 2013 was a difficult year in the financial management world due to the Budget Control Act of 2011, which went into effect in March 2013. This law created a level of uncertainty in the Army which included budget cuts and furloughs. In response to these challenges, the USACE workforce remained flexible and stayed true to their high standards and our internal controls remained strong. Due to our comprehensive internal controls program, dedicated personnel, and reliable financial management system, I am confident that the financial information is presented accurately and reflects the results of our operations.

One organization I would like to highlight is our USACE Finance Center (UFC) located in Millington, Tennessee. The UFC is the backbone of our finance and accounting operation and a driver in ensuring internal controls remain strong. The UFC is responsible for all finance and accounting functions related to disbursing and collecting funds to include financial reporting for our Civil Works program appropriated funds, Revolving Fund and Trust funds. The UFC is also responsible for the system operation and maintenance of the Corps of Engineers Financial Management System (CEFMS). Due to the strength of our financial management system (CEFMS) and the dedication of our staff at the UFC, we have been able to achieved success in creating auditable financial statements.

Our outstanding Management team is responsible for maintaining strong internal controls over financial reporting. Internal control over financial reporting is a process designed by our Resource Management team and executed by personnel at our field operating activities. I am proud to say that due to the continual hard work and commitment by USACE employees our financial business process led to our sixth consecutive "clean" unqualified audit opinion and for the second straight year our operations are free from material weakness.

I am proud of everyone within USACE who continues to strive toward greatness in financial management. This report and the accomplishments it describes reflect their extraordinary dedication to duty.



Wesley C. Miller  
Chief Financial Officer



# SERVICE TO THE NATION, STRENGTH FOR THE FUTURE

Aerial of the Carlyle Lake Dam. (Photo by Allan Dooley)



An osprey eating a fish in a tree at the Albeni Falls Dam.  
(Photo by Park Ranger Ashley Jones)

***The Corps' multi-faceted mission is accomplished in an environmentally-sustainable and economically- and technically-sound manner through partnerships with other government agencies and nongovernment organizations.***

## Overview

The United States (U.S) Army Corps of Engineers (USACE) is comprised of two major programs: the Civil Works program and the Military program. These financial statements represent only the Army Civil Works program (USACE-CW). The Military program is reported within the Army General Fund Financial Statements.

### MISSION

The USACE-CW mission is to (1) contribute to the national welfare and serve the nation with quality, responsive development and management of the country's water resources; (2) protect, restore, and manage the environment; (3) respond to disasters and aid in recovery efforts; and, (4) provide engineering and technical services. This multi-faceted mission is accomplished in an environmentally-sustainable and economically- and technically-sound manner through partnerships with other government agencies and nongovernment organizations.

### DEVELOPING AND MANAGING WATER RESOURCES

The original role of the USACE, as it related to developing and managing water resources, was to support lake, riverine, coastal, and island navigation by maintaining and improving federal navigation channels. Over the years, and through subsequent legislation, the USACE-CW role expanded to include: (1) flood risk management; (2) improvement of aquatic habitat; (3) generation of hydroelectric power;





Environmental managers with the U.S. Army Corps of Engineers Sacramento District survey plantings along the lower American River in Sacramento, CA, designed to reestablish riverbank habitat function for endangered fish like salmon and steelhead trout. (U.S. Army photo by Todd Plain/Released)

(4) creation of recreation opportunities; (5) provision of water storage for municipal and industrial water supplies;

(6) regulation of discharges into navigable waters; and, (7) emergency planning and management.

## PROTECTING, RESTORING AND MANAGING THE ENVIRONMENT

The Rivers and Harbors Act of 1890 required the USACE to prevent the obstruction of navigable waterways. As environmental concerns grew in the mid 20th century, several statutes were passed promoting conservation of fish and wildlife. The National Environmental Policy Act, enacted in 1970, further emphasized the need to consider environmental impacts when planning projects. The Clean Water Act of 1972 greatly broadened the scope of

the USACE-CW responsibility for regulating discharges into U.S. waters, including the country's wetlands. The USACE-CW's environmental responsibilities have continued to increase through legislation, and now include aquatic ecosystem restoration, clean-up of early atomic energy program sites, and overall stewardship responsibilities.

## RESPONDING AND ASSISTING IN DISASTER RELIEF

Throughout history, the U.S. has relied on the USACE for help both in times of natural and man-made disasters. The USACE-CW responds to natural disasters under the Flood Control and Coastal Emergency Act (Public Law [P.L.] 84-99, as amended) and to man-made

disasters under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). The USACE-CW primary role in emergency relief and recovery operations is to provide public works and engineering support.

## PROVIDING ENGINEERING SUPPORT AND TECHNICAL SERVICES

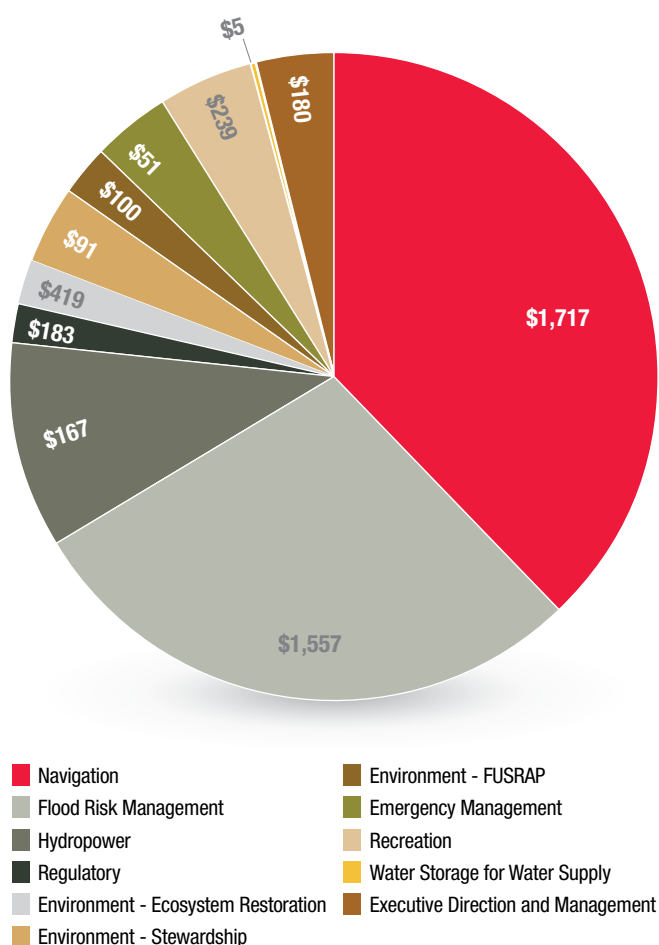
In Titles 10 and 33 of the U.S. Code (U.S.C.), Congress expressed its intent for the USACE-CW to provide services on a reimbursable basis to other federal entities; state, local, and tribal governments; private firms; and international

organizations. Additional authority to provide services to all federal agencies is found in Titles 15, 22, and 31, which include providing services to foreign governments.

# THE CIVIL WORKS PROGRAM

The USACE classifies its work by business lines, which provide a framework for executing the USACE-CW; however, the associated civil works activities transcend individual business lines and often produce multiple water resource benefits for the Nation. Consequently, close coordination between the business lines is required to deliver quality, timely products and services as well as achieve the USACE-CW strategic goals. The business line managers continually seek comprehensive, collaborative, and sustainable solutions that often involve multiple business lines. A description of the business lines of the USACE-CW follows Figure 1. Figure 1 lists the business lines that receive direct appropriations and the funds used for executive direction and management for fiscal year (FY) 2013.

**FIGURE 1. FY 2013 USACE-CIVIL WORKS INITIAL APPROPRIATIONS BY BUSINESS LINE**



Through the American Recovery and Reinvestment Act (ARRA) of 2009, the USACE-CW received \$4.6 billion. All of the USACE-CW business lines, except emergency management, received ARRA funding for various programs, projects, and activities. Specific information on ARRA funding may be found at the USACE-CW Recovery website at <http://www.usace.army.mil/recovery>. The USACE will continue to expend the ARRA funds received in FY 2009 through FY 2015. These funds are included in the expenditure totals in the business line performance tables.

Through the Disaster Relief Appropriations Act, 2013 (P. L. 113-2), the USACE-CW received \$5.1 billion (net of sequestration) for repairs, rehabilitation, and recovery from the effect of Hurricane Sandy. Funds were provided in five appropriations. The funds will be used primarily for flood risk management, including developing a comprehensive risk management plan, accelerating sustainable risk management projects, repairing and restoring damaged flood risk management and shore protection projects, as well as dredging affected navigation channels. These funds are available until expended and, in the case of studies and construction, will be used over a period of years to implement comprehensive recovery and sustainable development plans; these funds are included in the expenditure totals in the applicable business line performance tables.

## NAVIGATION

The Navigation business line is responsible for ensuring safe, reliable, efficient, and environmentally sustainable waterborne transportation systems for the movement of commercial goods, as well as for national security purposes. It fulfills this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The Navigation business line is vital to the nation's economic prosperity; 97% of America's overseas international trade, by volume, and 64% of its trade, by value, moves through its ports. Our nation's Marine Transportation System (MTS) encompasses a network of USACE-CW-maintained navigable channels, waterways, and infrastructure, as well as publicly- and privately-owned vessels, marine terminals, intermodal connections, shipyards, and repair facilities. The MTS consists of approximately 12,000 miles of inland and intracoastal waterways with 220 locks at 171 sites; approximately 300 deep-draft and over 600 shallow-draft



Rainfall in early July brought the pool elevation at Cold Brook reservoir to an elevation of 3585.0 feet, which is slightly above the top of the conservation pool level. (Photo by Paula Andrie)

coastal and Great Lakes channels and harbors, extending 13,000 miles, and including 21 locks; and more than 900 coastal structures and 800 bridges. The USACE is responsible for maintaining all of these entities.

In FY 2013, Navigation, estimated at \$1.7 billion, accounted for just over 36% of new USACE-CW appropriations.

## FLOOD RISK MANAGEMENT

The Flood Risk Management (FRM) business line reduces the risk to human safety and property damage in the event of floods and coastal storms. The USACE-CW has constructed 8,500 miles of levees and dikes, 383 reservoirs, and more than 90 storm damage reduction projects along 240 miles of the nation's 2,700 miles of shoreline. With the exception of reservoirs, upon completion, most infrastructures built under the auspices of FRM are transferred to the sponsoring cities, towns, and special use districts that own and operate the projects.

Over the years, the USACE-CW mission of addressing the causes and impacts of flooding has evolved from flood control and prevention to more comprehensive FRM. These changes reflect a greater appreciation for the complexity and dynamics of flood problems—the interaction of natural forces and human development—as well as for the federal, state, local, and individual partnerships needed to thoroughly manage the risks caused by coastal storms and heavy rains.

Flood risk management is the process of identifying, evaluating, selecting, implementing, and monitoring actions to mitigate levels of risk. Its goal is to ensure scientifically sound, cost-effective, integrated actions that reduce risks while taking into account social, cultural, environmental,

ethical, political, and legal considerations. The USACE-CW approach to FRM relies on productive collaborations with partners and stakeholders (e.g., the Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development (HUD), the National Oceanic and Atmospheric Administration (NOAA), affected state agencies, sponsors, and citizens) that heighten the nation's awareness of flood risks and consequences.

The FRM business line has compiled an impressive record of performance, yielding a six-to-one return on investment; that is, the business line saves six dollars for each dollar spent. It has also helped reduce the risk to human safety by providing timely flood warnings that afford sufficient time for evacuation.

In FY 2013, the FRM business line was estimated at \$1.6 billion and accounted for 33% of the USACE-CW new appropriations.

## ENVIRONMENT

The USACE-CW has three distinct areas that are focused on the environment: (1) aquatic ecosystem restoration; (2) stewardship of USACE-CW lands; and, (3) Formerly Utilized Sites Remedial Action Program (FUSRAP).



**Aquatic Ecosystem Restoration.** The USACE-CW mission in aquatic ecosystem restoration is to help restore aquatic habitat to a more natural condition in ecosystems in which structure, function, and dynamic processes have become degraded. The emphasis is on restoration of nationally- or regionally-significant habitats where the solution primarily involves modifying the hydrology and/or geomorphology. In FY 2013, the Aquatic Ecosystem Restoration business line received approximately \$419 million, which translates to just fewer than 9% of the total new USACE-CW appropriations.

**Environmental Stewardship.** Environmental stewardship focuses on managing, conserving, and preserving natural resources on 12 million acres of land and water at 470 multipurpose USACE-CW projects. USACE personnel monitor water quality at the USACE-CW dams and operate fish hatcheries in cooperation with state wildlife agencies. This business line encompasses compliance measures to ensure USACE-CW projects (1) meet federal, state and local environmental requirements; (2) sustain environmental quality; and, (3) conserve natural and cultural resources. In FY 2013, Environmental Stewardship received \$91 million, an amount comprising 1.9% of the new USACE-CW appropriations.

**FUSRAP.** Under FUSRAP, the USACE-CW cleans up former Manhattan Project and Atomic Energy Commission sites, making use of expertise gained in cleansing former military sites and civilian hazardous waste sites under the Environmental Protection Agency's Superfund Program. In FY 2013, FUSRAP received \$100 million, or approximately 2.1% of the total new USACE-CW appropriations.

## REGULATION OF AQUATIC RESOURCES

In accordance with the Rivers and Harbors Act of 1899 (Section 10), and the Clean Water Act of 1972 (Section 404), as amended, the USACE regulates work in, over, and under navigable rivers as well as the discharge of dredged and fill material into U.S. waters, including wetlands. The USACE implements many of its oversight responsibilities by means of a permit process. Throughout the permit evaluation process, the USACE complies with the National Environmental Policy Act and other applicable environmental and historic preservation laws. In addition to federal statutes, the USACE also considers the views of other federal, tribal, state and local governments, agencies, and interest groups, as well as the general public when rendering its final permit decisions. Regulatory responsibilities include evaluating minor activities, such as driveways for small landowners as well as large water supply and energy project proposals which affect billions of dollars of the nation's economy.

In FY 2013, at \$183 million, the Regulatory appropriation accounted for 3.9% of total USACE-CW new appropriations.

## EMERGENCY MANAGEMENT

Throughout USACE history, the U.S. has relied on the USACE-CW in times of national disaster. Emergency management continues to be an important part of the USACE-CW, which directly supports the Department of Homeland Security (DHS) in carrying out the National Response Framework. It does this by providing emergency



Hurricane Sandy Damage Assessment. (Photo by Justin Ward)



An Army Corps of Engineers Natural Resource Specialist inspects levees between Jacksonport and Newport, AR. (Photo by Laurie Driver)

support in public works and engineering and by conducting emergency response and recovery activities under authority of P.L. 84-99. In a typical year, the USACE responds to more than 100 flood and coastal storm events and 30 presidential disaster declarations; its highly-trained workforce is prepared to deal with both man-made and natural disasters.

Recovery and repair is integral to maintaining FRM infrastructure that has been affected by a disaster so that it can function as designed and intended during future flood events.

The USACE-CW not only contributes to domestic emergency management efforts, but it also plays a role on the international stage through its participation in civil-military emergency preparedness. In support of the Department of Defense (DoD), the USACE-CW shares emergency management knowledge and expertise with U.S. allies and partners in the former Soviet Republics and Eastern Europe. This valuable program brings together key leaders, and builds relationships among nations.

In FY 2013, through regular appropriations, the Emergency Management business line received approximately \$25 million to ensure the USACE is prepared to respond to natural disasters. It also received \$26 million for continuity of operations activities, non-natural disaster preparedness activities, and facility protection. This \$51 million received by Emergency Management accounted for 1.1% of the total new appropriations for the USACE-CW. Through the Disaster Relief Appropriations Act, 2013, the Emergency Management business line also received \$958 million for

Hurricane Sandy-related work in the Flood Control and Coastal Emergencies (FCCE) appropriation.

## HYDROPOWER

The USACE-CW multipurpose authorities provide hydroelectric power as an additional benefit of projects built for navigation and flood damage reduction. The USACE is the largest owner-operator of hydroelectric power plants in the U.S., and one of the largest in the world. The USACE operates 350 generating units at 75 multipurpose reservoirs, mostly in the Pacific Northwest; they account for about 24% of America's hydroelectric power and approximately 3% of the country's total electric-generating capacity. Its hydroelectric plants produce nearly 70 billion kilowatt-hours each year, which is sufficient to serve nearly 7 million households, or roughly 11 cities the size of Seattle, Washington. Hydropower is a renewable source of energy, producing none of the airborne emissions that contribute to acid rain or the greenhouse effect.

In FY 2013, the Hydropower business line, at approximately \$167 million, accounted for 3.5% of the USACE-CW new appropriations.

## RECREATION

The USACE is an important provider of outdoor recreation, which is an ancillary benefit of its flood prevention and navigation projects. The Recreation business line provides quality outdoor public recreation experiences in accordance with its three-part mission to (1) serve the needs of present and future generations; (2) contribute to the quality of

American life; and, (3) manage and conserve natural resources consistent with ecosystem management principles.

The USACE manages 4,248 recreation sites at 422 projects on 12 million acres of land. During FY 2013, 10% of the U.S. population visited a USACE-CW project at least once. These visitors spent \$16 billion pursuing their favorite outdoor recreation activities.

In FY 2013, the Recreation business line accounted for approximately \$239 million, or 5.1% of the USACE-CW new appropriations.

## WATER STORAGE FOR WATER SUPPLY

Conscientious management of the nation's water supply is critical to limiting water shortages and lessening the impact of droughts. The USACE-CW has an important role in ensuring that homes, businesses, and industries, nationwide, have enough water to meet their needs. It retains authority for water supply in connection with construction, operation and modification of federal navigation, flood damage reduction, and multipurpose projects.

In FY 2013, the Water Supply business line accounted for approximately \$5 million, or one-tenth of 1% of USACE-CW new appropriations.

# ORGANIZATIONAL STRUCTURE

## THE WORKFORCE

USACE is an executive branch agency within the DoD, and a major command within the U.S. Army. The USACE consists of two major programs—civil works and military construction—which are supported by two smaller, separate sub-programs—real estate, and research and development. The entire organization employs approximately 37,000 people, including approximately 765 Army officers, noncommissioned officers, and enlisted soldiers. Approximately 24,000 civilian employees work to support the USACE-CW. With the appointment of the first Chief Engineer in 1775, the USACE has a long history and is today one of the world's largest public engineering, design, and construction management agencies. It leverages

its expertise through contracts with civilian companies for all construction work and much of its design work.

The USACE organization consists of a headquarters located in Washington, D.C., nine major subordinate commands (MSCs), and 46 districts, 38 of which carry out civil works responsibilities in the United States, and 6 specialized centers. Most of the MSC and district geographic boundaries are aligned with watershed boundaries. There are also several world-renowned research and development laboratories and other offices contributing to the USACE mission. Figure 2 shows the division boundaries, which are defined by watersheds and drainage basins.



A welder working at Ensley Engineer Yard. (Photo by Stacy Ouellette)



Through its Pacific Ocean and South Atlantic Divisions, the USACE also has civil works responsibilities in the Territory of American Samoa, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

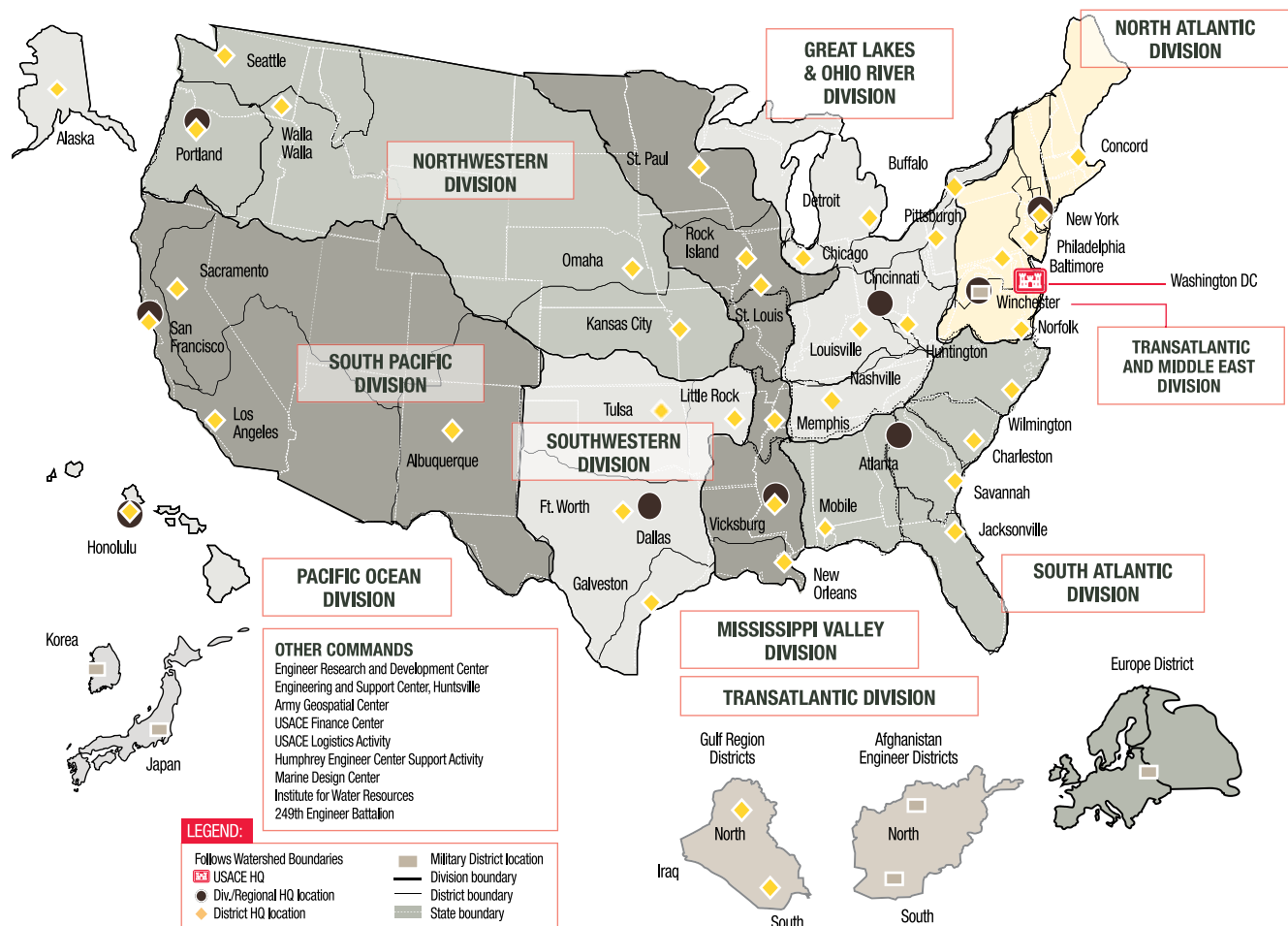
The USACE-CW leadership is provided by a presidentially-appointed civilian Assistant Secretary of the Army for Civil Works (ASA(CW)) who is charged with responsibility for overall policy direction and oversight for all aspects of the civil works mission. An Army officer serves as the Chief of Engineers to oversee execution of both the Civil Works and Military programs and ensure that policies established by the ASA(CW) are applied to all aspects of the USACE-CW. The Chief of Engineers delegates authority for the leadership and management of the USACE-CW to the Deputy Commanding General for Civil and Emergency Operations and to the civilian Director of Civil Works.

USACE-CW divisions are regional offices responsible for the supervision and management of subordinate districts, to include oversight and quality assurance. Districts are the foundation of the USACE-CW, responsible for executing the USACE-CW mission.

The distribution of employees within the USACE-CW highlights the customer focus: 95% of employees work at the district level (in labs or field operating agencies) and demonstrate the fact that project management, operations, and maintenance activities are performed at the local (district) level. The USACE-CW contracts out all of its construction, and most of its design work, to civilian companies. As many as 150,000 people are indirectly employed in support of Civil Works projects, and the USACE-CW contractual arrangements have served the nation well in times of emergency.

The USACE-CW is funded primarily through Energy and Water Development appropriations.

**FIGURE 2. USACE-CW BOUNDARIES**



**FIGURE 3. CIVIL WORKS LEVELS OF AUTHORITY**



## CIVIL WORKS PROGRAM PERFORMANCE

The USACE-CW has a direct impact on America's prosperity, competitiveness, quality of life, and environmental stability. In September 2011, the USACE leadership published a new strategic plan to provide a framework for enhancing the sustainability of America's resources. The plan's strategic goals support the USACE-CW strategic direction over the five-year period, FY 2011–FY 2015. In addition, in support of the Administration's drive toward a more efficient, effective, and transparent government, the USACE developed four Agency Priority Goals for FY 2012 and FY 2013 that reflect the high and direct public value of the USACE-CW. These goals are:

**Priority Goal 1 (Aquatic Ecosystem Restoration):** By September 30, 2013, consistent with the federal restoration strategies developed for each unique ecosystem, the USACE-CW will show progress through completion of identified study, design, and construction activities that will contribute to a long-term goal of improved ecological conditions in the Great Lakes Basin, the Everglades, and the Columbia River Basin.

**Priority Goal 2 (Flood Risk Management):** Reduce the nation's risk of flooding that places individuals at risk of injury or loss of life and damages property. By September 30, 2013, reduce at least 10 dam safety classification ratings, conduct at least 600 levee risk screenings, and improve the condition rating for at least 13 high-consequence projects, which have either failed or have inadequate condition ratings.

**Priority Goal 3 (Inland Navigation):** Help facilitate commercial navigation by providing safe, reliable, highly cost-effective, and environmentally-sustainable waterborne transportation systems. Through September 30, 2013, limit annual lock closures due to mechanical failures of main lock chambers on high and moderate use waterways to no more than 46 for closures lasting more than one day, and no more than 26 for closures lasting more than one week.

**Priority Goal 4 (Hydropower):** Improve the current operating performance and asset reliability of hydropower plants in support of Executive Order 13514. By September 30, 2013, the USACE-CW, the Department of Energy Power Marketing Administrations (PMAs), and PMA preference customers will implement sub-agreements that will provide funds to accomplish major maintenance and/or major rehabilitation on existing power plants.

The FY 2013 performance results for these Agency Priority Goals is discussed in the relevant business line sections.





Using an airboat to measure ice on Lake Pepin, near Wabasha, MN. Located on the Mississippi River between Red Wing and Wabasha, MN, the lake is used as a benchmark because the ice melts slower in this area due to the lake width and the slower current. (Photo by Patrick Moes)

***Strategic Goal 1: Assist in Providing Safe and Resilient Communities and Infrastructure.***

## FLOOD RISK MANAGEMENT

### Objectives:

- ★ Invest in environmentally-sustainable flood and coastal storm damage reduction solutions through the safe operation of flood reduction infrastructure when benefits exceed costs.
- ★ Reduce the nation's risk of flooding, which damages property and places individuals at risk of injury or loss of life.

**Funding History:** The first rows of Table 1 and Table 2 display FRM funding.

**Performance Indicators:** To measure its progress in meeting Goal 1 objectives, the USACE uses performance indicators described below; the results are shown in Tables 1 and 2.

### Construction measures for Flood Risk Management

**Flood damage prevented.** The estimated annual dollars of property damage avoided through USACE-CW flood damage reduction projects completed during the fiscal year.

**Ten-year moving average.** The 10-year moving average of actual flood-damage reduction benefits attributable to all completed USACE-CW flood damage reduction projects.

**Dam safety action class (DSAC) I, II, III dams under study.** The number of DSAC I, II, and III projects under dam safety and seepage/stability study.

**DSAC I, II, III dams with completed studies.** The number of DSAC I, II, and III projects with complete dam safety modification reports.

**DSAC I, II, III dams under remediation.** The number of DSAC I, II, and III projects under remediation construction.

### Performance Results—Construction and Investigations

Construction funding was used to continue work on 69 construction projects, completing four construction projects and bringing on line additional benefits that will provide flood risk reduction to 1.8 million people and prevent approximately \$384 million in potential damages. Construction funding was provided to complete Wolf Creek Dam and also used to continue construction work on three additional high-risk DSAC I dams (Center Hill, Clearwater, and Herbert Hoover) and six DSAC II dams (Bluestone, Dover, Canton, Emsworth, Bolivar and East Branch). In addition, three DSAC I dams (Addicks, Barker, and Pine Creek) and one DSAC II dam (Rough River) are in the pre-construction engineering and design phase of construction.

Dam Safety and Seepage/Stability Correction Program construction funds were used to complete nine dam safety studies and continue efforts on another 37. Completed studies included three Dam Safety Modification Reports

(Isabella, Pine Creek, Addicks and Barker), five Issue Evaluation Studies (Nolin, Green River, Brookville, Hammond, and JE Roush) and one Post Construction Risk Assessment (Bluestone). Completed dam safety studies either advised proceeding to construction, determined specific project features that require more detailed analysis, or found that project risks are now lessened either by interim repairs or by a better understanding of the issues.

Investigations funding was used to advance 44 continuing feasibility studies and preconstruction, engineering, and design (PED) activities for a total of \$46 million. A portion of the funding was used to complete 16 studies and PED on high priority studies that will recommend justified flood risk management measures for communities in high risk areas. Investigation funds were used to continue high priority flood risk management coordination program activities that support state and local flood risk mitigation priorities. Throughout the country, 6 new state-level Silver Jackets teams were established in FY 2013 to facilitate federal and state coordination and develop collaborative solutions to address state flood risk mitigation priorities bringing the total number of state teams to 41. Additionally, in response to the historic flooding in 2011 on the Mississippi River, investigation funds were used to initiate the collection of flood and flow data throughout the Mississippi River and Tributaries System in order to assess potential changes in the systems performance and capability to provide adequate system performance to meet its authorized project design.

**TABLE 1. CONSTRUCTION & INVESTIGATION—FLOOD RISK MANAGEMENT**

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$2,767	\$2,172	\$1,427	\$969	\$1,282
Flood damage prevented in millions of dollars	\$28.0	\$9.8	\$27.5	Note 1	\$384
Ten-year moving average in billions of dollars	\$25.2	\$37.1	\$36.2	Note 1	
DSAC I, II, III dams under study	28	75	90	60	46
DSAC I, II, III dams with completed studies	2	5	5	5	9

**Note 1:** Data is collected from actual floods occurring throughout the year, and data becomes available in March following the year of interest. The USACE-CW makes no predictions or targets year-to-year; data is used for trend analysis only.

### Operation and maintenance measures for Flood Risk Management

*The following three measures comprise the FY 2012-2013 FRM Priority Goal:*

**Number of dam safety classification ratings reduced.** The number of dam safety risk classification improvements on USACE operated dams resulting from risk assessment analysis and safety improvements implemented.

**Levee risk screenings conducted.** The number of portfolio risk screening and periodic inspections conducted on levee systems with the USACE-CW Levee Safety Program.

**High-consequence project condition rating improvement.** The number of USACE-CW projects with an improved overall project condition rating resulting from maintenance work completed.

## Performance Results—Operation and Maintenance (O&M)

The FY 2013 O&M funding provided for the operation and maintenance of 396 flood risk management projects including the Mississippi River and Tributaries System, in order to maintain basic operations for flood risk management purposes without compromising project purpose and function. Funding was used to fund non-routine maintenance activities on eight projects with high consequences and failed or inadequate project condition ratings. Additionally, funding was used to continue the implementation of the USACE-CW Levee Safety Initiative, including periodic inspection and screen level risk assessments of the over 14,000 miles of federally authorized and non-federal levee systems. These periodic inspections and risk screenings will greatly improve our understanding of the conditions and risks associated with the nation's levee systems, and will improve our ability to inform the public of the risks and recommend the appropriate risk management actions to address the risks.

### Priority Goal

Reduce the nation's risk of flooding that places individuals at risk of injury or loss of life and damages property. By September 30, 2013, reduce at least 10 dam safety classification ratings, conduct at least 600 levee risk screenings, and improve the condition rating for at least 13 high-consequence projects, which have either failed or have inadequate condition ratings.

### Priority Goal Results

The measures for the Flood Risk Management Priority Goal are shown in bold in the Table 2.

As of September 30, 2013, 400 levee safety periodic inspections and levee risk screenings have been completed and 23 dams had DSAC improvements in FY 2013 based on the further evaluation of project risks and/or remedial measures:

- ★ Brookville Dam, DSAC II to IV, based on an Issue Evaluation Study (IES)
- ★ Green River Dam, DSAC II to III, based on an IES
- ★ Nolin Dam, DSAC II to III, based on an IES
- ★ Hammond Dam, DSAC II to III, based on an IES
- ★ J. Edward Roush Dam, DSAC II to III, based on an IES

- ★ Waurika Dam, DSAC III to IV, based on a Periodic Assessment (PA)
- ★ West Bank Levee at Rankin Dam, DSAC II to IV, based on a PA
- ★ Hartford Levee, DSAC II to IV, based on a PA
- ★ Pomme de Terre Dam, DSAC III to IV, based on a PA
- ★ Council Grove Dam, DSAC III to IV, based on a PA
- ★ J Percy Priest Dam, DSAC II to III, based on a PA
- ★ Francis E. Walter Dam, DSAC III to IV, based on a PA
- ★ Glover Wilkins Lock and Dam, DSAC II to III, based on a screening for portfolio risk analysis (SPRA) re-evaluation
- ★ Mt St Helens SRS, DSAC III to IV, based on an SPRA re-evaluation
- ★ Rapide Croche Dam, DSAC II to IV, based on an SPRA re-evaluation
- ★ Upper Appleton Dam, DSAC II to IV, based on an SPRA re-evaluation
- ★ Wilbur Mills Dam, DSAC III to IV, based on an SPRA re-evaluation
- ★ Norrell Lock and Dam, DSAC III to IV, based on an SPRA re-evaluation
- ★ Dexter Dam, DSAC II to III, based on an SPRA re-evaluation
- ★ Foster Dam, DSAC II to III, based on an SPRA re-evaluation
- ★ Clarence Cannon Re-Regulation Dam, DSAC II to IV, based on an SPRA re-evaluation
- ★ David D Terry Lock and Dam, DSAC III to IV, based on an SPRA re-evaluation
- ★ Aquilla Dam, DSAC III to IV, based on an SPRA re-evaluation
- ★ Joe Hardin Lock and Dam, DSAC III to IV, based on an SPRA re-evaluation
- ★ Ozark Lock and Dam, DSAC III to IV, based on an SPRA re-evaluation

Additionally, maintenance work to improve the condition rating on the 13 high consequence projects has been completed on seven projects in FY 2013 and the maintenance work on the remaining projects is on schedule for contract award and/or construction completion in FY 2014.

**TABLE 2. OPERATION AND MAINTENANCE—FLOOD RISK MANAGEMENT**

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$887	\$855	\$1,087	\$588	\$761
<b>Number of dam safety classification ratings reduced</b>	<b>Note 1</b>		<b>7</b>	<b>5</b>	<b>25</b>
<b>Levee risk screenings conducted</b>			<b>326</b>	<b>274</b>	<b>400</b>
<b>High-consequence projects improved condition rating</b>			<b>5</b>	<b>8</b>	<b>7</b>

**Note 1:** FY 2012 is the first year of reporting on this measure.

## EMERGENCY MANAGEMENT

This business line strives to manage the risks associated with all types of hazards and increase civil works emergency management responsiveness to disasters in support of federal, state, and local emergency management efforts. Disaster preparedness and response capabilities are not limited to flood and coastal storm events, but also contribute to a broad range of natural disasters and national emergencies. Emergency readiness contributes to national security

### Objectives:

- ★ Attain and maintain a high, consistent state of preparedness.
- ★ Provide a rapid, effective, and efficient all-hazard response.
- ★ Ensure effective and efficient long-term recovery operations.

**Funding History:** The first row of Table 3 indicates funding for emergency preparedness and response and recovery operations.



Debris from Hurricane Sandy loaded onto barges. (Photo courtesy of USACE-CW)





The U.S. Army Corps of Engineers Savannah District test the spillway gates at the J. Strom Thurmond Dam to ensure the gates can be activated properly in the event of an emergency. (USACE-CW photo by Billy Birdwell)

**Performance Indicators:** The three primary measures listed in Table 3 assist in determining progress toward meeting the USACE-CW emergency management objectives. Indicators are explained below.

**Planning and Response Team readiness.** The USACE established designated Planning and Response Teams (PRTs) organized to provide rapid emergency response and recovery within specific mission areas. This measure is calculated as a percentage of time during the fiscal year during which PRTs are fully staffed, trained, and ready to deploy.

**Project inspection performance.** The USACE performs inspections of active non-federal flood control projects operated and maintained by public sponsors to determine their ability to perform as designed and intended during a future flood event, and to determine eligibility for federal assistance in the event of damage. This measure is determined by the percentage of scheduled inspections completed during the fiscal year.

**Damaged project restoration.** The USACE repairs flood control projects damaged by floods or storms under authority of P.L. 84-99. This measure is the percentage of projects damaged during a fiscal year and repaired prior to the next flood season.

### Performance Results

Hurricane Sandy was a catastrophic tropical storm that struck the North Atlantic coastline in late October 2012, resulting in loss of life, severe damage to the coastline,

widespread power outages, and extensive damage to infrastructure, businesses and private residences. Within the U.S., damages were experienced as far south as Florida and as far north as New England. Particularly hard hit were areas in the greater New York City metropolitan area, including Long Island, New York, New Jersey, and Connecticut shoreline. The Hurricane Sandy efforts overshadowed every other event in the year, but there were many others, including massive spring flooding in Mississippi and Ohio River Valleys, and smaller flood events in California, the Pacific Northwest, New Mexico, Colorado, and the Susquehanna River Valley.

Although Hurricane Sandy was the biggest and most visible disaster of the year, the USACE responded to many other disasters, large and small. Drought conditions on the Mississippi River resulted in low water which required blasting operations near Thebes, IL, to deepen the channel. Numerous wildfires in the west resulted in Advance Measures technical assistance being provided in Colorado, New Mexico, and Idaho. Flash flooding in Colorado also resulted in seven mission assignments (\$3.7M) in support to FEMA. Spring flooding in the Mississippi and Ohio River Valleys damaged over three dozen levees that are being repaired under PL 84-99 authority, in Mississippi, Tennessee, Missouri, Illinois, Indiana, Kentucky, and Iowa, and flooding in New York resulted in additional levee rehabilitation work. Flooding in Galena, Alaska, resulted in eight FEMA mission assignments totaling \$1.26 million. The USACE issued approximately 5 million sandbags to local entities during the year to support flood-fighting efforts across the nation.



**TABLE 3. EMERGENCY MANAGEMENT INDICATORS**

	FY 2010 <sup>1</sup>	FY 2011 <sup>1</sup>	FY 2012 <sup>1</sup>	FY 2013	
				Target <sup>1</sup>	Actual <sup>1</sup>
Expenditures in millions of dollars	\$1,515	\$1,857	\$1,165	\$1,009	\$762
Planning and Response Team readiness	87%	96%	96%	95%	100%
Project inspection performance	77%	70%	86%	80%	83%
Damaged project restoration	61%	27%	68%	47%	47%

**Note 1:** Additional funding was provided in supplemental appropriations to repair projects damaged by coastal storm and flooding

***Strategic Goal 2: Help Facilitate Commercial Navigation in an Environmentally- and Economically-Sustainable Fashion***

**NAVIGATION**

**Objectives:**

- ★ Invest in navigation infrastructure that is fully capable of supporting maritime requirements in environmentally-sustainable ways when economically justified.
- ★ Improve the efficiency and effectiveness of existing USACE-CW water resource projects by maintaining justified levels of service to commercial traffic of high-use infrastructure, e.g., waterways, harbors, and channels.
- ★ Address the O&M backlog by funding high-priority O&M projects.

**Funding History:** The first rows of Table 4 and Table 5 indicate Navigation funding.

**Performance Indicators:** To measure progress in meeting Goal 2 objectives, the USACE uses performance indicators. These indicators relate to activities for inland and intracoastal waterways, coastal ports, and harbors as well as to the efficiency of the overall navigation system. The most representative indicators are described below and their measures are shown in Table 4 and Table 5.

**Construction measures for the navigation system**

**High-return investments.** The percentage of funding to rehabilitate, construct, or expand projects that are allocated to high-return investments. High-return investment projects are those with a benefit-to-cost ratio (BCR) of 3.0 or greater.

**Average annual benefits realized by construction projects completed in current fiscal year.** The total average annual benefits (present value) realized by completed construction projects. This measure assesses the effectiveness of the construction program in realizing transportation savings.

**Performance Results - Construction and Investigations**

Investigations funds of \$18 million were used at various locations throughout the nation to continue the study and design of navigation improvements, exemplified by (1) lock replacements on the Mississippi and Ohio Rivers, Gulf Intracoastal Waterway, and Illinois Waterway; (2) deepening of key ports, e.g., Charleston, Savannah, Boston, Jacksonville, Port Everglades, Freeport, and Brownsville; and, (3) increasing economic benefits, reducing transportation costs, and improving the overall reliability of the navigation infrastructure. Chief of Engineers' reports were completed for the Freeport Harbor (Texas) project to deepen the main channels from 45 to 55 feet.

Construction funds of \$308 million for inland waterways were used to (1) complete major rehabilitation of Lock and Dam (L&D) 27, Mississippi River, and continue major rehabilitation of Lockport L&D, Illinois Waterway; (2) continue construction of replacement locks and dams, such as Olmsted L&D, Ohio River, L&Ds 2, 3, and 4, Monongahela River, and Kentucky L&D, Tennessee River; and (3) continue construction of training dikes along the Mississippi River to improve navigation reliability and reduce O&M costs. Major rehabilitation of Emsworth L&D, Ohio River, and Chickamauga Lock, Tennessee River, continued, using previously appropriated Construction, Inland Waterways Trust Fund (IWTF), and ARRA funds.

Construction funds of \$191 million for coastal navigation projects were used for: (1) major channel deepening improvement projects, such as New York and New Jersey Harbor, Delaware River Main Channel (Delaware, New York, Pennsylvania), and Wilmington Harbor, North Carolina; (2) construction of dredged material and beneficial use placement sites, including: Jacksonville Harbor and Tampa Harbor (Florida), Savannah Harbor (Georgia), and Green Bay Harbor (Wisconsin); (3) mitigation of shoreline damages caused by navigation projects; and (4) study and design for deepening and widening of additional deep draft



As part of Louisville Mayor Fischer's Hike, Bike and Paddle event, more than 200 kayakers, canoeists and other boaters paddled their way through the McAlpine Locks and Dam on a 4.5-mile journey from the Louisville waterfront to New Albany, IN. (Photo by David Seng)

navigation channels, such as Baltimore Harbor & Channels (Maryland and Virginia), Jacksonville Harbor (Florida), Mobile Harbor (Alabama), San Francisco Bay to Stockton (California), and Savannah Harbor Expansion (Georgia).

**TABLE 4.** Navigation Construction Performance Indicators

					FY 2013	
					Target	Actual
	Expenditures in millions of dollars	FY 2010	FY 2011	FY 2012		
Inland Waterways	Percentage of funds to high-return investments (BCR > 3)	76%	94%	97%	75%	22% <sup>1</sup>
Coastal Ports and Harbors	Average annual benefits realized by construction projects completed in current fiscal year in millions of dollars	\$44.7	\$3.6	\$23.8	\$40	\$43.7 <sup>2</sup>

**Note 1:** Cost estimate for the ongoing Olmsted Locks and Dam project increased significantly, thereby lowering the BCR below 3.0

**Note 2:** Completion of Wilmington Harbor (NC), Akutan Harbor (AK), and Unalaska Harbor (AK)

### Operation and maintenance measures for inland and intracoastal waterways

**Ton-miles.** The sum total of movement of cargo on a specific waterway; this measure is a roll-up of tons of cargo transported by a vessel multiplied by the miles that vessel traveled on the particular inland or intracoastal waterway. Although there is no specific USACE-CW target, this indicator is used for trend analysis.

**Segment availability.** The number of hours, in excess of 24, that mechanical-driven failure or shoaling results in the closure of all, or part of, a high- or moderate-commercial-use segment. The measure includes only failures on the main chamber of a lock (rather than an auxiliary chamber) and on shoaling due to inadequate dredging (rather than low water levels from droughts or channels closed due to floods). It also tracks closures of more than one week. The two measures that were developed for the navigation priority goal—preventable lock closures over one day, and over seven days—are proxies for this measure.

## Operation and maintenance measures for coastal ports and harbors, including major repairs

**Tons of cargo.** Total sum of cargo in tons moved in and out of coastal ports and harbor systems. This measure indicates system use; data collected are for the purpose of trend analysis. No specific target is generated by the USACE.

The USACE is in the process of developing a system to measure and collect data on channel availability on high-use projects, which would represent the percentage of time that high commercial traffic navigation channels are available to commercial users. There are a total of 59 high-use projects, defined as those that pass 10 million or more tons of cargo per year. Data on these projects will be displayed in this report once the system is fully deployed.

### Performance Results—Operation and Maintenance

The O&M and the Mississippi River and Tributaries O&M appropriations of \$74 million were used to fund (1) continued operation and maintenance of 220 locks at 177 locations; and, (2) maintenance dredging of critical and high commercial-use reaches of the 12,000 miles of inland and intracoastal waterways. Not all waterways were maintained at authorized dimensions. Many locks and dams received only the most critically-needed maintenance; some locks, dams, and waterways were only maintained in caretaker status. Funding enabled maintenance dredging of high-use, commercially-important coastal ports, harbors, and channels; critical harbors of refuge; and subsistence harbors. Many high- and moderate-commercial-use

projects did not receive sufficient funds to maintain constructed project dimensions. O&M funding was used to dredge the most critical shoals. Most low commercial-use harbors and channels were not dredged and continue to shoal, further limiting vessel drafts.

### Priority Goal

Help facilitate commercial navigation by providing safe, reliable, highly cost-effective, and environmentally-sustainable waterborne transportation systems. Through September 30, 2013, limit annual lock closures due to mechanical failures of main lock chambers on high and moderate use waterways to no more than 46 for closures lasting more than one day, and no more than 26 for closures lasting more than one week.

### Priority Goal Results

The measures for the Navigation Priority Goal are shown in bold in the table below.

The targets are based on the median annual number of closures over the previous five years. The instances and hours of scheduled and unscheduled lock closures due to mechanical failures have generally been increasing since FY 2000. The USACE anticipates lock closures will continue to increase over the next several years and it further anticipates that the five-year median target will increase accordingly. The USACE is prioritizing its annual funding and continues to complete repairs and maintenance work on locks with Recovery Act investments, which will help arrest the increase in lock closures.

**TABLE 5. NAVIGATION, OPERATIONS AND MAINTENANCE ACTIVITIES PERFORMANCE INDICATORS**

					FY 2013	
		FY 2010	FY 2011	FY 2012	Target	Actual
Inland Waterways	Expenditures in millions of dollars	\$2,281	\$1,878	\$1,662	\$1,290	\$1,715
	Segment availability—closures over 24 hours in thousands of hours	19.6	23.1	16.5	Note 1	9.9
	Ton-miles in billions of ton—miles by fiscal year	261	242	267	Note 1	Note 2
	<b>Preventable lock closures over 24 hours</b>	<b>61</b>	<b>50</b>	<b>39</b>	<b>46</b>	<b>28</b>
	<b>Preventable lock closures over 7 days</b>	<b>37</b>	<b>26</b>	<b>19</b>	<b>26</b>	<b>16</b>
Coastal Ports and Harbors	Tons of cargo in billions of tons	1.856	1.914	1.881	Note 1	Note 2

**Note 1:** The USACE-CW does not set targets for these measures.

**Note 2:** Waterborne Commerce Statistics Center data for FY 2013 will not be available until late spring 2014.



Federally endangered California least tern. (Photo courtesy of USACE-CW)

### ***Strategic Goal 3: Restore Degraded Aquatic Ecosystems and Prevent Future Environmental Losses***

#### **AQUATIC ECOSYSTEM RESTORATION**

**Objective:** Restore the structure, function, and process of significantly degraded ecosystems to allow them to revert to a more natural condition. Invest in restoration projects or features that positively contribute to the nation's environmental resources in a cost-effective manner.

**Funding History:** The first row of Table 6 displays the funding for aquatic ecosystem restoration.

**Performance Indicators:** The USACE has established two indicators to assess progress in meeting this objective; data are shown in Table 6.

Acres of habitat restored, created, improved, or protected annually. The number of acres of habitat restored in degraded ecosystems.

Number of projects or separate elements physically completed. This represents the actual number of projects or separate elements physically completed in the current fiscal year.

#### **Performance Results**

Funding was provided to continue efforts in the several important ecosystems. This includes continued implementation of Everglades restoration efforts; work in the Great Lakes on the modifications to the Chicago Sanitary and Ship Canal to prevent the transfer of invasive species between the Great Lakes and Mississippi River basins; and continued work on restoration of Poplar Island, Maryland, using dredged material from the Baltimore channel. Funding for studies on the Louisiana Coastal Area Program was reduced due to available carryover and significant changes in the State's priorities. The multimillion dollar effort directed towards meeting the requirements of biological opinions affecting

various projects on the Columbia River system and the Missouri River continues to be a USACE-CW priority. Other projects receiving construction funding include restoration of Hamilton Airfield Wetlands, California; Napa Salt Marsh, California; and Upper Mississippi River Restoration. Thirteen ecosystem restoration projects were physically completed in FY 2013.

Completion of 15 other projects restored 3,400 acres. This included 220 acres along the Missouri river, providing restored habitat for the endangered least tern and piping plover as well as pallid sturgeon and other native fish. The specifically authorized project Sand Creek, Wahoo, Nebraska completed providing 953 acres. Three projects were completed in the Great Lakes region, and the Ventura Marsh, Iowa project restored almost 900 acres. The Great Lakes Mississippi River Inter-basin Study was among several studies funded. One Chief of Engineer's report was signed in FY 2013 – Neuse River Basin Ecosystem Restoration Project, North Carolina.

#### **Priority Goal**

By September 30, 2013, consistent with the federal restoration strategies developed for each unique ecosystem, the USACE-CW will show progress through completion of identified study, design, and construction activities that will contribute to a long-term goal of improved ecological conditions in the Great Lakes Basin, the Everglades, and the Columbia River Basin.

#### **Priority Goal Results**

This goal consisted of a total of 23 milestones, 12 of which were scheduled in FY 2013. Twenty-two of the milestones were met by September 30, 2013. Significant progress was made in identifying promising technologies for limiting the exchange of invasive species between the Great Lakes and Mississippi River basins, and possible alternatives were identified for further analysis. In addition a contract was awarded for construction of the building to house and protect from the elements the specialized electrical equipment that will generate the fish-detering electrical field barrier. In the Everglades, construction was completed and the Central Everglades Restoration Plan's (CERP) Melaleuca Eradication and Other Exotic Plants, Rearing Annex was turned over to the sponsor for operation. This facility will be used to raise biological predators that will aid in the reduction of the population of invasive and exotic plants such as Melaleuca in the Everglades. In the Columbia River system, the completion of the John Day North Shore Fish Ladder Improvements was a key milestone that was met. The missed milestone was the completion of the Merritt Pump due to the need to adjust



the design to accommodate the sponsor's system and to resolve problems identified during testing. The pump is one element of the CERP Picayune Strand project. It will be the first of the three main contracts to be completed for this project. When all three phases are completed project sheet flow will be restored to 55,000 acres of previously drained wetlands and will provide connectivity to adjoining federal and state managed lands.

**TABLE 6. AQUATIC ECOSYSTEM RESTORATION INDICATORS**

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$531	\$496	\$581	\$419	\$479
Acres of habitat restored, created, improved, or protected (annual)	4,540	12,200	1,221	3,260	3,400
Number of projects/separable elements physically completing	17	28	15	13	15

## REGULATORY

**Objective:** To execute the USACE-CW regulatory mission in a manner that protects the aquatic environment while allowing reasonable development through fair and balanced decision making.

**Funding History:** The first row of Table 7 displays the funding for the Regulatory business line.

**Performance Indicators:** Table 7 displays measures that are performance indicators in determining progress in meeting this objective.

**General permit decisions.** The percentage of general permit application decisions made within 60 days.

**Individual permits.** The percentage of general individual permit application decisions made within 120 days. This standard does not include individual permits with formal Endangered Species Act (ESA) consultations.



Progress continues at Poplar Island where dredged material from the Baltimore Harbor and other channels is being used to restore the island that was recently on the verge of disappearing. (Photo by U.S. Army Corps of Engineers, Baltimore District)



### Performance Results

In FY 2013, the USACE-CW Regulatory business line exceeded its performance targets. Regulatory funds were used to maintain similar levels of staffing across the nation. This business line continues to seek out advancements that can be made by leveraging the best in available technology and science. Its goal is to place the necessary tools and technology in the hands of the field staff so that they may continue to provide exceptional service to stakeholders while meeting the mission—protecting the nation’s aquatic environment.

TABLE 7. REGULATORY INDICATORS

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$209	\$196	\$191	\$183	\$184
Percentage of general permit application decisions made within 60 days	92%	91%	89%	75%	89%
Percentage of standard permits and letter of permission permit decisions made within 120 days	67%	71%	69%	50%	69%

### ENVIRONMENTAL REMEDIATION (FORMERLY UTILIZED SITES REMEDIAL ACTION PROGRAM)

#### Objectives:

- ★ Minimize risk to human health and the environment
- ★ Maximize the cubic yardage of contaminated material disposed in a safe and legal disposal facility
- ★ Return the maximum number of affected individual properties to beneficial use

**Funding History:** The first row of Table 8 displays funding for environmental remediation.

**Performance Indicators:** The measures listed in Table 8 serve as indicators to help USACE personnel determine progress in meeting this objective.

**Cubic yardage of contaminated material disposed.** Target-soil amounts are dependent on previous year funding and scheduled activities.

**Individual properties returned to beneficial use.** The number of properties released for general use following remediation.

#### Performance Results

This business line uses the Monte Carlo method for cost and schedule risk analysis, a methodology that continues to improve the USACE-CW performance and ability to repair past environmental damage. The Monte Carlo method uses a series of random samples taken from a range of variables that can affect cost and schedule, in order to create a cost and schedule forecast with a definable level of certainty (or uncertainty). In FY 2013, FUSRAP met all of its performance targets. Funds were used to continue radiological remedial

activities at the Maywood site in New Jersey; the Shallow Land Disposal Area in Pennsylvania; properties in the vicinity of the St. Louis Airport in Missouri; the Iowa Army Ammunition Plant; the Hazelwood Interim Storage/Latty Avenue; the St. Louis Downtown Sites in St. Louis, Missouri; and W.R. Grace at Curtis Bay site in Baltimore, Maryland. The remedial action at the Linde site in Tonawanda, New York was completed.

A site-wide record of decision was signed for the DuPont – Chambers Works site in New Jersey. A soil remedial investigation was completed at the Colonie site in New York. Approximately 55,000 cubic yards of contaminated material was removed. Seventeen (138 cumulative) properties were returned to beneficial use. Remedial investigation activities continued at all other FUSRAP sites.

**TABLE 8. REMEDIAL ACTION INDICATORS**

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$166	\$181	\$137	\$100	\$93
Contaminated material removed in thousand cubic yards	212	129	97	52	55
Individual properties returned to beneficial use <sup>1</sup>	31	18	11	17	17

**Note 1:** In prior year publications this measure was reported as a cumulative figure; in FY 2013 the measure has been reformatted to show only actual annual results.

## ENVIRONMENTAL STEWARDSHIP

### Objectives:

- ★ Protect natural and cultural resources through maintenance of project boundaries and protection of encroachments, protection of significant cultural sites and control of threats from invasive species.
- ★ Comprehensively plan for natural resource uses compatible with project purposes and resource capabilities through proper master plan compliance with current regulations and proper evaluation of existing and proposed outgrants use of USACE-CW lands and waters.
- ★ Sustain and restore ecological diversity through protection of environmentally sensitive areas, proper management of special status species and their habitats and protection of ecological functions that contribute to national programs of interest.

**Funding History:** The first row of Table 9 reflects funding for environmental stewardship

**Performance Indicators:** To measure success in attaining the above objectives, the USACE developed a number of performance indicators; data for two of the main indicators may be found in Table 9.

**Healthy and sustainable lands and waters.** The number of USACE-CW fee-owned acres classified in a sustainable condition divided by the total number of USACE-CW fee-owned acres where land conditions assessments have been completed. Sustainable is defined as being healthy and viable, not significantly impacted by any unmanageable factors, and not requiring intensive management to maintain health. The acreage also meets operational goals and objectives established in applicable management documents.

**Master plan compliance.** The master plan fosters an efficient and cost-effective project for natural resources, cultural resources, and recreational management programs. Master Plan compliance is defined as a plan with resource objectives and classifications as per current regulations. This measure demonstrates the USACE-CW commitment to fully integrate environmental stewardship in the management of operating projects and allows for making appropriate land use decisions in the face of increasing demand for use of USACE-CW lands. The measure is expressed as a percentage derived by dividing the number of required master plans in compliance with regulation by the total number of required master plans.



Touring the project site at Indian Creek, a tributary of the Cobbs Creek watershed. The project is designed to reduce combined sewage overflow and improve habitat. (Photo by USACE Philadelphia District & Marine Design Center)

### Performance Results

Constrained resources continue to permit the USACE to meet only the highest priorities and most immediate responsibilities in land, water and cultural resources protections.

Under the healthy and sustainable performance measure, the basic protection of land and water resources is expected to continue to remain relatively flat. Threats from invasive species, exotic pests, development, and population growth, combined with the increase in request for use of USACE-CW lands, will continue a path of declining resource health

across USACE-CW projects. Funding will continue to be placed on the highest priority and most significant resources needs to sustain priority habitat while other critical habitat conditions may become further degraded.

The number of master plans updated in accordance with current regulations, remain fairly low, which, in turn, hampers the ability to adequately plan for, and adjust to, increasing pressures by rising population growth and land use demands. The performance trend is expected to slightly increase in future years as additional priority has been placed on master plans in the USACE-CW budget development.

TABLE 9. ENVIRONMENTAL STEWARDSHIP INDICATORS

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual <sup>1</sup>
Expenditures in millions of dollars	\$212	\$191	\$173	\$91	\$162
Healthy and sustainable lands and waters	45%	65%	66%	66%	68%
Master plan compliance	28%	32%	32%	32%	33%

Note 1: FY 2013 figures are estimates; actual results will be available in December 2013.

### Strategic Goal 4: Implement Effective, Reliable, and Adaptive Life-Cycle Performance Management of Infrastructure

#### HYDROPOWER

**Objective:** To improve the efficiency and effectiveness of existing USACE-CW water resource projects. The USACE seeks to maintain peak availability and reliability of hydroelectric power-generation at multipurpose reservoir projects.

**Funding History:** The first row of Table 10 indicates capital improvements and O&M expenditures for the Hydropower business line over the past three-year period.

**Performance Indicators:** Table 10 displays representative performance indicator results and targets for the year.

**Percentage of time available during periods of peak demand.** The amount of time during designated peak demand periods that hydroelectric generating units are available to the PMA's interconnected system.

**Percentage of forced outages.** The percentage of time generating units are in an unscheduled or unplanned outage status. Lower the forced outage rates increase the reliability and reduce the cost of the electrical power that is provided to the customer.

**Sub-Agreements signed.** Under their existing master agreements, the major subordinate commands sign sub-agreements with their regional Department of Energy PMA and preference customers to provide customer funding for specific maintenance, rehabilitation, or modernization activities at USACE-CW hydroelectric facilities.

### Performance Results

Appropriated funds were used to accomplish critical routine operation and maintenance and some non-routine maintenance at 54 of the Corps 75 hydroelectric facilities, along with some capital work, such as rehabilitation of the Garrison Power Plant Switchyard and judicial requirements. Additional capital work and other non-routine maintenance work was accomplished through the implementation of agreements and associated sub-agreements with the regional Department of Energy PMAs and their preference customers.

The length of time hydropower generating units were actually available to produce power during peak demand periods decreased, when compared to the previous year. This decrease resulted in part from scheduled equipment outages for capital investments and equipment outages resulting from aging equipment. The industry standard for peak availability is 95%. Table 10 shows FY 2013 business line performance for peak availability to be approximately 9.25 percentage points below the industry standard.

### Priority Goal

Improve the current operating performance and asset reliability of hydropower plants in support of Executive Order 13514. By September 30, 2013, the USACE, the Department of Energy Power Marketing Administrations (PMAs), and PMA preference customers will implement sub-agreements that will provide funds to accomplish major maintenance and/or major rehabilitation on existing power plants.

### Priority Goal Results

The measure for the hydropower priority goal is shown in bold in the table below. The USACE has achieved its goal of implementing sub-agreements to provide funds to accomplish major maintenance or major rehabilitation at existing hydropower plants. All USACE divisions with hydropower have either implemented sub-agreements during FY 2013 or are in the process of negotiating sub-agreements with their regional Department of Energy PMAs and preference customers.

TABLE 10. HYDROPOWER INDICATORS

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$352	\$349	\$395	\$167	\$280
Percentage of time available during periods of peak demand	86.82%	89.33%	88.18%	95%	85.75%
Percentage of time units are out of service due to unplanned outages	4.29%	4.4%	4.22%	2%	5.85%
<b>Number of sub-agreements signed</b>	<b>Note 1</b>		<b>13</b>	<b>Note 2</b>	<b>26</b>

**Note 1:** New measure beginning in FY 2012.

**Note 2:** The USACE-CW does not set targets for this measure

## RECREATION

### Objectives:

- ★ Provide justified outdoor recreation opportunities in an effective and efficient manner at all USACE-CW water resources projects.
- ★ Offer outdoor recreation opportunities to meet the needs of present and future generations of Americans.





A view of Pine Flat Dam near Fresno, CA. Pine Flat Dam reduces flood risk to Fresno County and stores water used for water supply and hydroelectric power. (U.S. Army photo by John Prettyman/Released)

- ★ Provide a safe and healthful outdoor recreation environment for USACE-CW customers.

**Funding History:** The first row of Table 11 shows the funding for the Recreation business line.

**Performance Indicators:** The measures displayed in Table 11 describe the value the Recreation business line provides to the Nation. These indicators are explained below.

**Total national economic development (NED) benefits.** The NED<sup>1</sup> benefits are estimated using the unit-day value method, which was originally developed by the Water Resources Council.

**Number of visitors.** The total number of visitors to USACE-managed parks, expressed in millions of people.

## Performance Results

The Army is committed to ensuring that all recreation areas provide visitors a level of service that will enable a secure, safe, and quality experience. Each project maintains multiple parks and multiple areas (camping, picnicking, boat launch) within each recreation area. The USACE continued a systematic, national review of more than 2,000 recreation areas to determine where changes could be made in management and operation of facilities to respond to changing economic, financial, and operational demands. Changes implemented included reduction in services and maintenance levels, hours of operations, and releasing recreation areas from USACE management and control, either by assignment to an outside interest or by closure. Available funding was directed toward providing necessary maintenance of grounds and sanitary facilities, protection of project assets and public property, security and visitor safety, and managing visitation.

**TABLE 11. RECREATION INDICATORS**

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$557	\$422	\$315 <sup>1</sup>	\$239	\$308
Total NED benefits in millions of dollars	\$1,610	\$1,477	\$1,556 <sup>1</sup>	\$1,542	\$1,567
Number of visitors in millions of visits	135	126	132 <sup>1</sup>	130	132

**Note 1:** Updated financial information was made available in FY 2013. Values are different from FY 2012 reported data.

<sup>1</sup> NED benefits arising from recreation experiences are measured in terms of willingness to pay for each increment of supply or type of recreation opportunity. The unit-day-value method relies on expert or informed opinion and judgment to approximate the average user's willingness to pay for federal or federally-assisted recreation resources. The unit-day-value is estimated at the park (recreation area) level by evaluating each park according to a set of published criteria. By applying a carefully thought-out and adjusted unit-day-value to estimated use, an approximation can be obtained for use as an estimate of project recreation benefit (i.e., NED benefits = unit-day value X recreation use in visitor days).

## WATER STORAGE FOR WATER SUPPLY

**Objective:** To provide municipal and industrial water supply storage in a cost-efficient and an environmentally and socially responsible manner in partnership with nonfederal water management plans, consistent with law and policy.

**Funding History:** Funding for water supply storage is provided in the first row of Table 12.

**Performance Indicators:** To assist in gauging progress, the USACE uses measures relating to the acre-feet of water stored and cost-recovery measures; these are shown in Table 12.

**Percentage of available acre-feet under contract.** The percentage of the acre-feet of water supply storage space under contract with state and local interests – for present and future use, compared to the acre feet of space available for water supply.

**Percent of investment costs recovered versus the total investment costs available for recovery.** The USACE seeks proportional reimbursement of capital costs for that portion of the reservoir allocated for water supply. Cost available for recovery is the total estimated capital cost of water supply allocations.

### Performance Results

One major initiative for FY 2013 was to provide \$1 million as the second year funding for a three year, \$3 million study of the six Missouri main stem reservoirs to evaluate water storage reallocation for water supply needs. This is the first reallocation study included in the water storage for water supply budget since FY 2006. Otherwise the current funding level provides only the minimum amount necessary to continue the water storage for water supply function on a caretaker basis.

Development and quality control of the water supply module of the Operations and Maintenance Business Information Link (OMBIL) continued during the year. This module is providing (1) additional data to help our districts in the management of their water supply program, (2) more tools for project oversight at the Headquarters level, and (3) instant response to inquiries from Army and congressional interests as well as from our state and local sponsors. In addition, a portfolio of and a module in OMBIL of our multiple purpose projects that contain irrigation storage space has been developed. Data was collected on authorizations, project and irrigation storage space, costs, other purposes that utilize the reservoir, flow released for irrigation, number of irrigation agreements and number of acres irrigated. We are beginning an effort to validate all data before OMBIL migrates to the Enterprise Data Warehouse.

TABLE 12. WATER STORAGE FOR WATER SUPPLY

	FY 2010	FY 2011	FY 2012	FY 2013	
				Target	Actual
Expenditures in millions of dollars	\$6	\$7	\$6	\$5	\$10
Percentage of available acre-feet under contract	94.8%	95.9%	94.9%	95%	95.6%
Percentage of capital cost recovered	56.2%	56.0%	55.3%	56%	56.3%





A barge makes its way through the McKlellan-Kerr Arkansas River Navigation System lock and dam. (Photo courtesy of USACE-CW)

## POSSIBLE FUTURE EFFECTS OF EXISTING CONDITIONS

### FLOOD RISK MANAGEMENT

The Flood Risk Management program provides an important opportunity to reduce flood risk to lives and property from inland and coastal flooding. In the last 25 years, these FRM projects have removed 2.7 million people from high-risk floodplains and avoided over \$477 billion in property damages. Systematic, coordinated operation of USACE-CW projects play a key role in reducing the Nation's flood risks, as was seen in the Missouri, Mississippi, and Ohio River watersheds in 2011 when these watersheds were exposed to historic flood levels, the USACE-CW was able to significantly mitigate potential damages to life and property. Current estimates for damages prevented during the 2011 historic flooding are in excess of \$141 billion.

The USACE-CW implemented a four-year Levee Safety Initiative in FY 2012 that will complete critical inspections and assessments of the levee systems within the USACE-CW levee safety program. Work in FY 2013 continued

periodic inspections of all federally authorized levee systems; continued a screening-level risk assessment of the levee systems that the Army operates and maintains, levees that were federally constructed or authorized and are locally operated, and nonfederal levees that are covered in the Rehabilitation and Inspection Program; and continued levee data collection for the National Levee Database. Completion of these assessments will provide an improved understanding of the conditions and risks associated with the Nation's levee systems in order to recommend courses of action to make sure that these levee systems do not present unacceptable risks to the public, property and the environment.

Additionally, priority will continue to be given to infrastructure maintenance and repair, reflecting the Army's concern about the risks associated with aging dams and levee systems.

### THE MARINE TRANSPORTATION SYSTEM

The MTS is comprised of 1,000 harbors and channels; 25,000 miles of inland and intracoastal waterways, and coastal channels and harbors; and 241 lock chambers. The national MTS goal is to provide a safe, secure, and globally-integrated network that, in harmony with the environment, ensures reliable movement of people and commerce along

waterways, sea lanes, and intermodal connections. Today, approximately 20% of the gross domestic product of the U.S. is generated by foreign trade, and approximately 95% of that trade is moved by water. The value of foreign tonnage is over \$900 billion and it generates 13 million



jobs. Current forecasts predict that maritime trade will double in the next 20 years.

The USACE-CW continues to be successful in providing significant navigation benefits to the nation; however, it faces considerable challenges in its efforts to maintain the reliability of the inland and intracoastal waterways and coastal navigation system. The system's aging infrastructure requires more repairs than the USACE-CW can accomplish given the historical level of navigation appropriations. Almost 60% of the USACE-CW locks have exceeded their 50-year service life and require increased maintenance to keep them functioning. Constrained funding, coupled with increased costs for dredging operations and construction, are affecting the USACE-CW ability to properly maintain its navigation infrastructure and channels. There has been a significant increase in dredging costs in recent years, which corresponds to the near doubling of fuel purchasing costs and significant increases in steel and labor costs. Also, many of the channel-deepening projects completed over the past few years require additional maintenance dredging. In addition, new environmental requirements and the construction of new, more distant dredged material placement sites have increased the costs of channel dredging. Although other factors may limit or control channel availability, the ability to maintain an acceptable channel width and depth through dredging operations has, by far, the greatest impact.

**Inland Waterways.** Eleven inland waterway locks are more than 100 years old, and 122 are over 50 years old. In

recent years, maintenance deferrals and delays in repairs and replacement of aging locks have driven up the number of unscheduled closures. For example, lock closures due to mechanical breakdowns of main lock chambers on high- and moderate-use waterways increased from 14,677 hours per year in FY 2001 to more than 31,000 hours per year in FY 2011. Closures totaled 19,500 hours in FY 2013. Closures have a negative effect on the economy by imposing costs on shippers, carriers, and electric utilities. An unscheduled 52-day closure at Greenup Locks and Dams in Ohio, for example, cost shippers and carriers over \$53 million. Additionally, rehabilitations and improvements to inland waterways are jeopardized by the low balance in the IWTF due to the fact that half of the cost of improvements is derived from this fund.

Funding for inland waterways projects remains constrained by the low balance in the IWTF and collected fuel-tax revenues, which fund 50% of the costs for inland projects on the fuel-taxed waterways. As the USACE-CW continues to assess the condition of the nation's dams, it must address human safety and navigation reliability issues. These dam safety projects are given funding priority, and together with the constrained IWTF, necessitate deferring or delaying many critical projects. Almost 60% of the USACE-CW locks have reached or exceeded their 50-year service life.

**Coastal Channels and Harbors.** Existing high-volume channels and harbors had constructed depths for the center half of the channel only one-third of the time in FY 2007



The Springville (Scoby) Dam located in Springville, NY is used to evaluate an array of measures which will provide fish passage above the dam to the upstream reaches of Cattaraugus Creek and its tributaries while at the same time prohibiting upstream migration of sea lampreys. (Photo by Andrew Kornacki, USACE Buffalo District Public Affairs)



and FY 2008. Loss of channel depths due to shoaling on high commercial use channels negatively affect the economy by imposing costs on vessel operators that, in turn, are reflected in the cost of imports and the price of U.S. exports. On average, failure to maintain one foot of channel depth increases container shipping costs by about 6%. Additional economic costs will accrue by postponing investment in deeper and wider channels that correlate with projected future demand.

For the 59 highest-use coastal ports and harbors, channel conditions are expected to continue to decline due to constrained funding and large increases in the costs of doing business, particularly as they relate to fuel, steel, and labor. Dredging costs have increased significantly over the past nine years. For these projects, constructed channel depths (for the channel's center half) were available approximately 35% of the time during FY 2005–FY 2008. The condition of moderate-and low-use inland and intracoastal waterways, as well as coastal ports and harbors, is expected to continue to decline.

## ENVIRONMENT: AQUATIC ECOSYSTEM RESTORATION

The goal of aquatic ecosystem restoration is to restore to a more natural condition, aquatic habitat whose structure, function, and dynamic processes have become degraded. To achieve its objectives, the USACE designs and constructs cost-effective projects that modify hydrologic and geomorphic characteristics.

The need for aquatic ecosystem restoration is great; however, the challenge is to strike a sustainable balance between the often-conflicting demands for funding and the use of water resources. Climate change is likely to make this balancing act even more difficult in the future. Additional work in the Everglades is dependent on future authorizations. Progress has been made on meeting the requirements of the Columbia River Biological Opinion, reducing future funding requirements, but there may

be increased need on the Willamette. In the absence of a standard metric, the USACE continues to work with other agencies and invest in research and development to objectively evaluate disparate ecosystem restoration projects and prioritize restoration needs. In FY 2013, the USACE-CW continued its research and development efforts to improve the use of structured decision-making tools, provide additional tools to facilitate evaluation of alternatives, and more effectively use ecosystem services in project formulation and evaluation. These efforts will continue over time as there is no easy answer to the complex issues involved; however, ongoing efforts will facilitate more consistent results as well as the ability to effectively build and evaluate a national portfolio of projects. The USACE-CW continues its efforts to balance funding to address the variety of resources needed across the country.

## REGULATORY

Despite reduced residential and commercial development pressures, this business line has experienced an influx of permit applications of increasing complexity. The national priorities to maintain and improve infrastructure and to develop alternative energy sources (wind, solar, and hydroelectric) as well as traditional energy resources (coal, oil, and gas) involve multiple regulatory agencies and associated reviews/approvals, which often generate substantial public interest.

The Regulatory business line will continue to be energy and infrastructure-focused as development of energy and infrastructure resources frequently affects aquatic resources. Districts ensure that activities are properly constructed and appropriately operated, and that the effectiveness of required mitigations is well documented. Districts target their efforts toward maximizing performance, effectiveness, and efficiency, both locally and regionally, with the goal of executing the Regulatory mission in a clear and consistent manner for the American public.

# Analysis of Financial Statements

USACE prepares annual Civil Works financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). The USACE-CW financial statements are subject to an independent audit to ensure that they are free from material misstatements, to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources. USACE-CW management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The USACE-CW Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the USACE-CW, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2012 to FY 2013. The charts presented in this analysis are “in millions” unless otherwise noted.

## BALANCE SHEET

The USACE-CW Balance Sheet presents the amounts of future economic benefits owned or managed by USACE-CW (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Figure 4 shows the USACE-CW Assets Comparison as of September 30, 2013 and 2012. Total assets amounted to \$58 billion in FY 2013 and \$54 billion in FY 2012, a 7.4% increase. The increase is mainly attributed to additional funding received in the Construction account during the 2nd Quarter, FY 2013, for the disaster relief and recovery related to Hurricane Sandy.

FIGURE 4: ASSETS COMPARISON

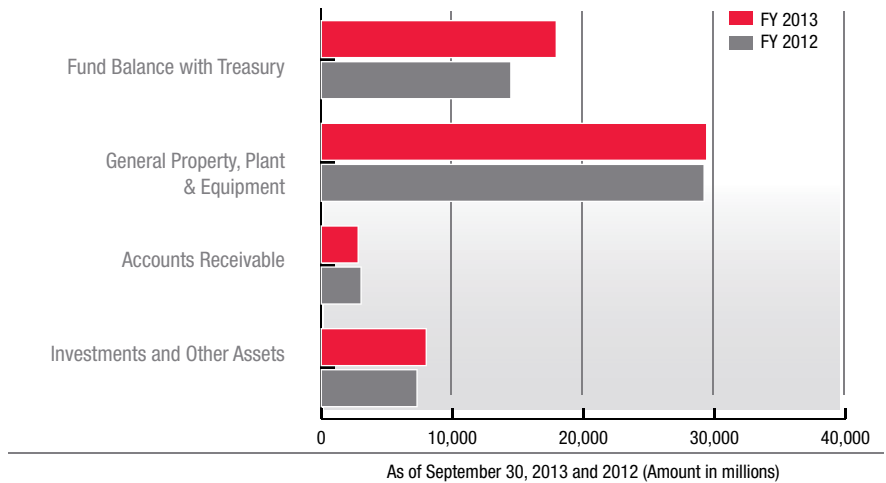
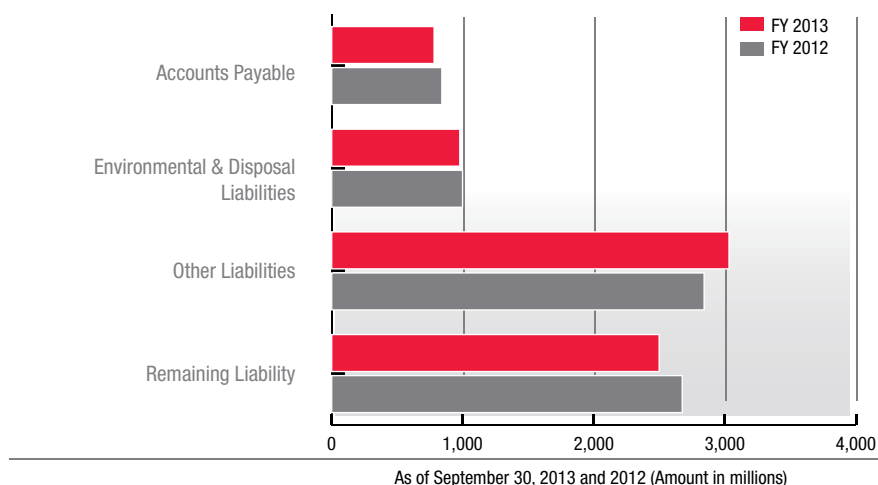


Figure 5 shows the USACE-CW Liabilities Comparison as of September 30, 2013 and 2012. Total liabilities amounted to \$7.3 billion in FY 2013 and \$7.4 billion in FY 2012, a 1.4% decrease.

FIGURE 5: LIABILITIES COMPARISON



## STATEMENT OF NET COST

The major elements of the Statement of Net Cost include program costs totaling \$10 billion in FY 2013 and \$11 billion in FY 2012, and earned revenues amounting to \$2.9 billion in FY 2013 and \$3.5 billion in FY 2012. Both elements are comprised of both intragovernmental and public costs. Total net costs of operations decreased by \$457 million or 6.1% which is attributed to the two factors.

Program costs decreased by \$1 billion or 9.7% due to the completion of projects related to the Hurricane and Storm Damage Risk Reduction System, the winding down of ARRA funds, and a reduction in the environmental liabilities related to FUSRAP. Additionally, the completions of Border Patrol Stations for the Department of Homeland Security and the Herbert Hoover dike were other factors.

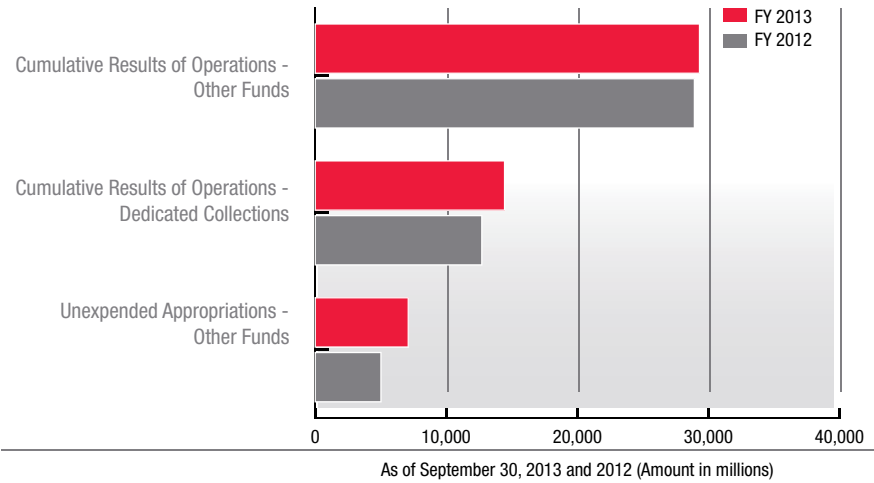
Earned revenue decreased \$607 million or 17.2% due to a decrease in revenue received from the Department of Veteran Affairs due to hospital and clinic renovations being near completion, the Department of Homeland Security for border patrol stations, fence replacements and land acquisition and a reduction in cost share collections in the Rivers and Harbors Contributed Fund.

## STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and nonexchange revenues, such as donations and forfeitures of property and imputed financing from costs absorbed by other federal agencies. USACE-CW net cost of operations and appropriations used serve to reduce net position.

Figure 6 shows the three components of the USACE-CW net position for FY 2013 and FY 2012. Overall, net position increased in FY 2013 compared to FY 2012 due to increases in each cumulative results of operations – other funds, cumulative results of operations – dedicated collections and unexpended appropriations – other funds.

FIGURE 6: CIVIL WORKS NET POSITION

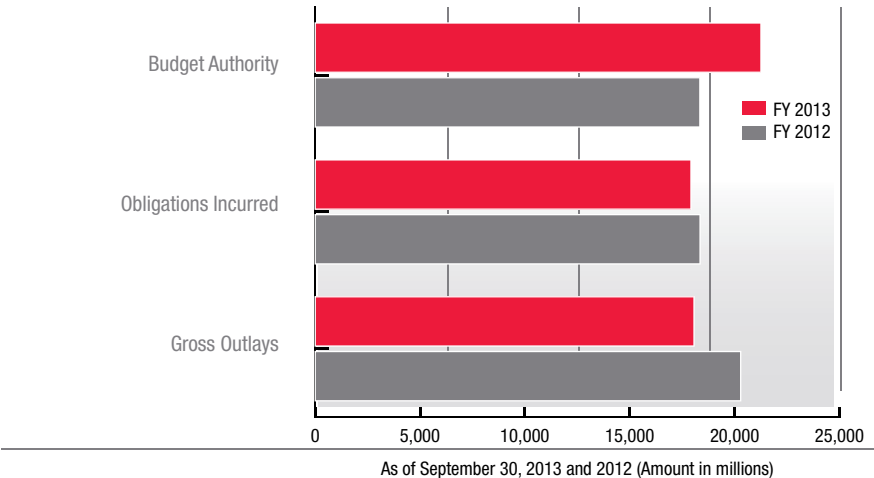


STATEMENT OF BUDGETARY RESOURCES

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the USACE-CW as of September 30, 2013 and 2012, and the status of those budgetary resources. Budget authority is the authority provided to the USACE-CW by law to enter into obligations that will result in outlays of federal funds. Obligations incurred results from an order placed, contract awarded, or similar transaction, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by Treasury for USACE-CW obligations.

Figure 7 shows a comparison of budget authority, obligations incurred and gross outlays in FY 2013 and FY 2012. The reported total Civil Works budget authority was \$21.3 billion and \$18.3 billion as of September 30, 2013 and 2012, respectively. Obligations incurred amounted to \$17.9 billion as of September 30, 2013, \$18.4 billion as of September 30, 2012. Gross outlays amounted to \$18 billion as of September 30, 2013, \$20.3 billion as of September 30, 2012. The decrease in gross outlays is due to completion of projects including hurricane protection projects at the New Orleans District, the completion of Department of Veterans Affairs hospital improvements, as well as roadway construction and the completion of border patrol assets for the Department of Homeland Security at the Fort Worth and Los Angeles Districts, and additional projects authorized under ARRA, 2009.

FIGURE 7: BUDGETARY RESOURCES







## Statement of Assurance

The management of the United States Army Corps of Engineers (USACE) Civil Works is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). USACE Civil Works conducted its assessment of the effectiveness of internal control over operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, USACE Civil Works can provide reasonable assurance that internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations met the objectives of FMFIA and no material weaknesses were found in the design or operation of the internal controls as of September 30, 2013.

USACE Civil Works conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular No. A-123. Based on the results of this assessment, USACE Civil Works can provide reasonable assurance that its internal control over financial reporting as of September 30, 2013 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. In addition, OMB Circular No. A-127 requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards, and the USSGL. Evaluation results also indicated that USACE Civil Works financial management systems were found to substantially comply with FFMIA and OMB Circular No. A-127 as of September 30, 2013.

Steven L. Stockton  
Director of Civil Works  
December 9, 2013

# Federal Manager's Financial Integrity Act

The management control objectives under the *Federal Manager's Financial Integrity Act of 1982* (FMFIA) are to reasonably ensure that:

- ★ Programs achieve their intended results efficiently and effectively;
- ★ Resources are used consistent with overall mission;
- ★ Programs and resources are free from waste, fraud, and mismanagement;
- ★ All applicable laws and regulations are followed;
- ★ Controls are sufficient to minimize any improper or erroneous payments;
- ★ System security is in substantial compliance with all relevant requirements;
- ★ Resources are used in accordance with the organizational mission;
- ★ Financial management system are in compliance with federal financial systems standards; and
- ★ Timely, accurate, and reliable data are maintained and used for decision making at all levels.

The USACE-CW internal control program is designed to ensure full compliance with the goals, objectives, and requirements of FMFIA and the OMB Circulars Nos. A-123, *Management's Responsibility for Internal Control*, A-136, *Financial Reporting Requirements*, and A-127, *Financial Management Systems*. The USACE-CW holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. The USACE-CW undertakes a combination of actions to ensure there is a reasonable level of assurance that internal controls are in place and operating effectively. Those actions consist of a combination of inspections, audits, investigations, and management control reviews conducted throughout the year. The USACE-CW also has a strong network of management control oversight committees to include the National Management Board, Regional Management Boards, and the Quarterly Review Boards. The Quality Management System, another management control mechanism, allows the USACE-CW to standardize business processes and ensure appropriate internal controls are built into those processes. Many of the USACE-CW management control evaluations are integrated into periodic management review processes such

as the Consolidated Management Reviews, Directorate Management Reviews, Program Management Reviews, and through the execution of internal audits. The USACE-CW evaluation for FY 2013 identified no material weaknesses in the design or operation of its management and financial system internal controls.

## OMB CIRCULAR NO. A-123, APPENDIX A

The USACE-CW conducted an assessment of the effectiveness of its internal controls over financial reporting in compliance with OMB Circular No. A-123, Appendix A, *Internal Control over Financial Reporting* (ICOFR) and related DoD guidance. The USACE Executive Senior Assessment Team (ESAT), established in FY 2008, is chaired by the Deputy Commanding General and comprised of functional area Senior Executives who provide expert leadership and direction over the CFO Act financial statement audits. USACE-CW evaluation for FY 2013 did not identify any material weaknesses as of or subsequent to June 30, 2013.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT 1996

The *Federal Financial Management Improvement Act* (FFMIA) of 1996 stipulates that government agencies "...implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transactional level." FFMIA also mandates that remediation plans be developed for any agency that is unable to report substantial compliance. Substantial compliance is achieved when an agency's financial management system(s) routinely provide reliable and timely financial information for managing day to day operations as well as produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements.

USACE-CW's financial management framework consists primarily of CEFMS. CEFMS is a comprehensive and integrated financial management system which processes all financial transactions for all USACE-CW missions and programs. CEFMS maintains an electronic record of the financial transactions and is in compliance with the USSGL. USACE-CW also utilizes CEFMS to maintain funds control and track the execution of all direct and

reimbursable funded projects. Adequate internal control mechanisms are critical in maintaining the integrity of transactional data. To ensure proper separation of duties, CEFMS includes a robust electronic signature process, utilizing public key infrastructure (PKI), and has a role-based security feature to reinforce its internal controls. CEFMS provides reliable and timely financial information for managing its financial operations. Internal controls are embedded throughout CEFMS to ensure data integrity and to prevent fraud, waste, and abuse through the segregation of duties using role-based controls. CEFMS is the primary reason why USACE has received unqualified audit opinions on its Civil Works financial statements for the past six consecutive fiscal years.

USACE-CW has evaluated its financial management systems and has determined that they substantially comply with the requirements of the FFMIA of 1996 (Section 801 of title 31, USC), the OMB Circular No. A-127, and the DoD Financial Management Regulations, Volume 1, Chapter 3.

## SUMMARY

Although USACE-CW has no material weaknesses to report as a result of the above internal control evaluations, management remains committed to addressing the material weaknesses and significant deficiencies identified as a result of audits, evaluations and assessments of controls in its financial management systems and its business processes, to ensure existence of effective internal controls, systems integration, and timely and reliable financial and performance data for reporting purposes. The table below shows the number of material weaknesses, significant deficiencies and legal requirements not in compliance, as a result of the independent audits of Civil Works financial statements from FY 2009 through FY 2013:

Fiscal Year End	Number of Material Weaknesses	Number of Significant Deficiencies	Number of Legal Requirements Not in Compliance
2009	5	2	6
2010	4	2	3
2011	1	3	3
2012	0	3	3
2013	0	3	2





## LIMITATIONS

### Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

# 2013



## US Army Corps of Engineers - Civil Works

**CONSOLIDATED BALANCE SHEETS**

As of September 30, 2013 and 2012

*(in thousands)***ASSETS (Note 2)**

## Intragovernmental:

Fund Balance with Treasury (Note 3)	\$	17,927,754	\$	14,461,483
Investments (Note 4)		7,998,914		7,239,781
Accounts Receivable (Note 5)		563,870		606,610
Total Intragovernmental Assets	\$	26,490,538	\$	22,307,874

Cash and Other Monetary Assets (Note 6)		727		1,691
Accounts Receivable, Net (Note 5)		2,250,094		2,428,773
Operating Materials and Supplies (Note 7)		7,798		63,533
General Property, Plant and Equipment, Net (Note 8)		29,402,834		29,205,629
Other Assets		44		115

**TOTAL ASSETS**

\$	58,152,035	\$	54,007,615
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**Stewardship PP&E (Note 9)****LIABILITIES (Note 10)**

## Intragovernmental:

Accounts Payable	\$	46,911	\$	51,752
Debt (Note 11)		1,721		4,273
Due to Treasury - General Fund (Note 13)		2,227,470		2,408,205
Other Liabilities (Notes 13 & 14)		631,707		816,921
Total Intragovernmental Liabilities		2,907,809		3,281,151

Accounts Payable - Public		734,245		788,679
Federal Employee and Veterans' Benefits		268,952		261,352
Environmental and Disposal Liabilities (Note 12)		977,023		998,241
Other Liabilities (Notes 13 & 14)		2,399,257		2,023,592

**TOTAL LIABILITIES**

\$	7,287,286	\$	7,353,015
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**Contingencies (Note 14)****NET POSITION**

Unexpended Appropriations - Other Funds	\$	7,099,379	\$	5,014,903
Cumulative Results of Operations - Dedicated Collections (Note 19)		14,445,950		12,710,452
Cumulative Results of Operations - Other Funds		29,319,420		28,929,245

**TOTAL NET POSITION**

\$	50,864,749	\$	46,654,600
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**TOTAL LIABILITIES AND NET POSITION**

\$	58,152,035	\$	54,007,615
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*The accompanying notes are an integral part of these financial statements.*

## CONSOLIDATED STATEMENTS OF NET COST

For the years ended September 30, 2013 and 2012  
(in thousands)

	2013	2012
<b>Program Costs</b>		
Gross Costs (Note 15)	\$ 9,963,341	\$ 11,027,330
Less: Earned Revenue	(2,910,901)	(3,517,657)
<b>Net Cost of Operations</b>	<u>\$ 7,052,440</u>	<u>\$ 7,509,673</u>

*The accompanying notes are an integral part of these financial statements.*

## US Army Corps of Engineers - Civil Works

**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**

For the years ended September 30, 2013 and 2012

<i>(in thousands)</i>	2013 Dedicated Collections	2013 Other	2013 Consolidated Total
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
<b>Beginning Balances</b>	\$ 12,710,452	\$ 28,929,245	\$ 41,639,697
<b>Budgetary Financing Sources:</b>			
Appropriations used	-	6,818,227	6,818,227
Nonexchange revenue	1,769,198	3,220	1,772,418
Transfers-in/out without reimbursement	46,465	96,308	142,773
<b>Other Financing Sources (Non-exchange):</b>			
Donations and forfeitures of property	-	2,462	2,462
Transfers-in/out without reimbursement	-	135,538	135,538
Imputed financing from costs absorbed by others	1,835	304,860	306,695
Other (+/-)	-	-	-
<b>Total Financing Sources</b>	1,817,498	7,360,615	9,178,113
<b>Net Cost of Operations</b>	82,000	6,970,440	7,052,440
<b>Net Change</b>	1,735,498	390,175	2,125,673
<b>Cumulative Results of Operations</b>	\$ 14,445,950	\$ 29,319,420	\$ 43,765,370
<b>UNEXPENDED APPROPRIATIONS</b>			
<b>Beginning Balances</b>	\$ -	\$ 5,014,903	\$ 5,014,903
<b>Budgetary Financing Sources:</b>			
Appropriations received	-	9,385,492	9,385,492
Appropriations transferred-in/out	-	-	-
Other adjustments (rescissions, etc.)	-	(482,789)	(482,789)
Appropriations used	-	(6,818,227)	(6,818,227)
<b>Total Budgetary Financing Sources</b>	-	2,084,476	2,084,476
<b>Unexpended Appropriations</b>	-	7,099,379	7,099,379
<b>Net Position</b>	\$ 14,445,950	\$ 36,418,799	\$ 50,864,749

*The accompanying notes are an integral part of these financial statements.*

**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**

For the years ended September 30, 2013 and 2012

*(in thousands)*

	2012 Dedicated Collections	2012 Other	2012 Consolidated Total
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
<b>Beginning Balances</b>	\$ 10,819,526	\$ 28,405,558	\$ 39,225,084
<b>Budgetary Financing Sources:</b>			
Appropriations used	-	7,515,953	7,515,953
Nonexchange revenue	1,813,267	(348)	1,812,919
Transfers-in/out without reimbursement	43,707	89,875	133,582
<b>Other Financing Sources (Non-exchange):</b>			
Donations and forfeitures of property	-	266	266
Transfers-in/out without reimbursement	-	136,029	136,029
Imputed financing from costs absorbed by others	3,444	322,093	325,537
Other (+/-)	(1,247)	1,247	-
<b>Total Financing Sources</b>	1,859,171	8,065,115	9,924,286
<b>Net Cost of Operations</b>	(31,755)	7,541,428	7,509,673
<b>Net Change</b>	1,890,926	523,687	2,414,613
<b>Cumulative Results of Operations</b>	\$ 12,710,452	\$ 28,929,245	\$ 41,639,697
<b>UNEXPENDED APPROPRIATIONS</b>			
<b>Beginning Balances</b>	\$ -	\$ 6,813,138	\$ 6,813,138
<b>Budgetary Financing Sources:</b>			
Appropriations received	-	5,719,292	5,719,292
Appropriations transferred-in/out	-	(1,643)	(1,643)
Other adjustments (rescissions, etc.)	-	69	69
Appropriations used	-	(7,515,953)	(7,515,953)
<b>Total Budgetary Financing Sources</b>	-	(1,798,235)	(1,798,235)
<b>Unexpended Appropriations</b>	-	5,014,903	5,014,903
<b>Net Position</b>	\$ 12,710,452	\$ 33,944,148	\$ 46,654,600

*The accompanying notes are an integral part of these financial statements.*



## US Army Corps of Engineers - Civil Works

**COMBINED STATEMENT OF BUDGETARY RESOURCES**

For the years ended September 30, 2013 and 2012  
(in thousands)

	2013 Combined	2012 Combined
<b>Budgetary Resources</b>		
Unobligated balance brought forward, October 1	\$ 8,610,077	\$ 8,528,488
Recoveries of prior year unpaid obligation	415,350	93,483
Other changes in unobligated balance	(32)	(1,664)
Unobligated balance from prior year budget authority, net	9,025,395	8,620,307
Appropriations (discretionary and mandatory)	10,431,745	7,641,853
Spending Authority from offsetting collections	10,821,836	10,698,950
<b>Total Budgetary Resources</b>	<b>\$ 30,278,976</b>	<b>\$ 26,961,110</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred	\$ 17,917,199	\$ 18,351,033
Unobligated balance, end of year		
Apportioned	11,038,039	7,411,953
Exempt from Apportionment	1,319,517	1,184,183
Unapportioned	4,221	13,941
Unobligated balance brought forward, end of year	12,361,777	8,610,077
<b>Total Budgetary Resources</b>	<b>\$ 30,278,976</b>	<b>\$ 26,961,110</b>
<b>Change in Obligated Balance:</b>		
Unpaid obligations, brought forward, October 1	\$ 8,374,732	\$ 10,405,457
Obligations incurred	17,917,199	18,351,033
Outlays (gross) (-)	(18,062,556)	(20,288,275)
Recoveries of prior year unpaid obligations (-)	(415,350)	(93,483)
Unpaid obligations, end of year	7,814,025	8,374,732
Uncollected payments, Federal sources, brought forward, October 1	(2,176,727)	(3,097,701)
Change in uncollected payments, Federal Sources (+ or -)	235,385	920,974
Uncollected customer payments, Federal sources, end of year (-)	(1,941,342)	(2,176,727)
Obligated balance, start of year (net)	6,198,005	7,307,756
<b>Obligated balance, end of year</b>	<b>\$ 5,872,683</b>	<b>\$ 6,198,005</b>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross (discretionary and mandatory)	\$ 21,253,581	\$ 18,340,803
Actual offsetting collections (discretionary and mandatory) (-)	(10,963,467)	(11,953,668)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	235,385	920,974
<b>Budget Authority, net (discretionary and mandatory)</b>	<b>\$ 10,525,499</b>	<b>\$ 7,308,109</b>
Outlays, gross (discretionary and mandatory)	18,062,556	20,288,275
Actual offsetting collections (discretionary and mandatory) (-)	(10,963,467)	(11,953,668)
Outlays, net (discretionary and mandatory)	7,099,089	8,334,607
Distributed offsetting receipts	(806,706)	(552,645)
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b>\$ 6,292,383</b>	<b>\$ 7,781,962</b>

The accompanying notes are an integral part of these financial statements.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.A. Mission of the Reporting Entity

The primary mission of the United States (U.S.) Army Corps of Engineers (USACE) Civil Works Program includes maintaining navigation channels, reducing flooding, assisting during natural disasters and other emergencies, and making waterways passable. The USACE also supports the Department of Homeland Security in carrying out the National Response Plan. USACE's primary role in support of this plan is to provide emergency support in areas of public works and engineering. USACE responds to more than 30 presidential disaster declarations in a typical year, and its highly trained workforce is prepared to deal with both man-made and natural disasters.

### 1.B. Basis of Presentation and Accounting

These financial statements have been prepared to report the financial position and results of operations of USACE, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994. The financial statements have been prepared from the books and records of USACE in accordance with the U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The accompanying financial statements account for all Civil Works resources for which USACE is responsible.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

USACE has presented comparative financial statements for the Consolidated Balance Sheet, Consolidated Statements of Net Cost and Changes in Net Position, and Combined Statement of Budgetary Resources, in accordance with OMB financial statement reporting guidelines.

USACE transactions are recorded on an accrual accounting basis as required by GAAP. USACE's financial management system meets all of the requirements for full accrual accounting.

### 1.C. Fund Types

General funds are used for financial transactions funded by Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

Revolving funds received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The revolving fund finances the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action.

Special funds are used to record government receipts reserved for a specific purpose.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Contributed funds are received from the public for construction of assets under local cost sharing agreements.

Most USACE trust, contributed, and special funds are designated as funds from dedicated collections. These funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. USACE is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for dedicated collections.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not USACE funds, and as such, are not available for USACE's operations. USACE is acting as an agent or a custodian for funds awaiting distribution.

Clearing accounts are used to record the amount of unprocessed intragovernmental payments and collections transmitted to USACE from other federal agencies.

Receipt accounts are used to record amounts such as interest, land lease proceeds, fines and penalties that are deposited in the U.S. Treasury.

*A summary of USACE accounts follows:*

#### **General Funds**

96X3112	Mississippi River and Tributaries
96 3113	Mississippi River and Tributaries - Recovery Act (fiscal year)
96X3121	Investigations
96 3121	Investigations (fiscal year)
96X3122	Construction
96 3122	Construction (fiscal year)
96X3123	Operation and Maintenance
96 3123	Operation and Maintenance (fiscal year)
96X3124	Expenses
96 3124	Expenses (fiscal year)
96X3125	Flood Control and Coastal Emergencies
96 3125	Flood Control and Coastal Emergencies (fiscal year)
96X3126	Regulatory Program
96 3126	Regulatory Program (fiscal year)
96X3128	Washington Aqueduct Capital Improvements
96 3129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year)
96X3130	Formerly Utilized Sites Remedial Action Program
96X3132	Office of Assistant Secretary of the Army, Civil Works
96 3132	Office of Assistant Secretary of the Army, Civil Works (fiscal year)
96 3133	Investigations - Recovery Act (fiscal year)
96 3134	Construction – Recovery Act (fiscal year)
96 3135	Operation and Maintenance – Recovery Act (fiscal year)
96 3136	Regulatory Program – Recovery Act (fiscal year)
96 3137	Formerly Utilized Sites Remedial Action Program – Recovery Act (fiscal year)
96 3138	General Expenses – Recovery Act (fiscal year)
96X6094	Advances from the District of Columbia

#### **Revolving Funds**

96X4902	Revolving Fund
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**Special Funds**

96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5493	Fund for Nonfederal Use of Disposal Facilities
96 5493	Fund for Nonfederal Use of Disposal Facilities (fiscal year)

**Trust Funds**

96X8217	South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96X8861	Inland Waterways Trust Fund
96X8863	Harbor Maintenance Trust Fund

**Trust Funds (Contributed)**

96X8862	Rivers and Harbors Contributed and Advance Funds
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**Deposit Funds**

96X6500	Advances Without Orders from Non-Federal Sources
96X6501	Small Escrow Amounts

**Clearing Accounts**

96F3875	Budget Clearing Account (suspense)
96F3880	Unavailable Check Cancellations and Overpayments (suspense)
96F3885	Undistributed Intragovernmental Payments

**Receipt Accounts**

96R0891	Miscellaneous Fees for Regulatory and Judicial Services, Not Otherwise Classified
96R1060	Forfeitures of Unclaimed Money and Property
96R1099	Fines, Penalties, and Forfeitures, Not Otherwise Classified
96R1299	Gifts to the United States, Not Otherwise Classified
96R1435	General Fund Proprietary Interest, Not Otherwise Classified
96R3220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other
96R5005	Land and Water Conservation Fund
96R5007	Special Recreation Use Fees
96R5066	Hydraulic Mining in California
96R5090	Receipts from Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes
96R5125	Licenses under Federal Power Act, Improvements of Navigable Waters, Maintenance and Operation of Dams, etc.
96R5493	User Fees, Fund for Nonfederal Use of Disposal Facilities
96R8862	Contributions and Advances, Rivers and Harbors

**1.D. Financing Sources**

USACE receives Federal funding through the annual Energy and Water Development Appropriations Act. Funding also comes from nonfederal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Support for Others Program, which is conducted under reimbursable agreements with Federal agencies.

USACE receives its appropriations and funds as general, revolving, trust, special, and deposit funds. USACE uses these appropriations and funds to execute its mission and subsequently report on resource usage.



USACE received borrowing authority from the U.S. Treasury to finance capital improvements to the Washington Aqueduct.

USACE receives congressional appropriations as financing sources that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of services. USACE recognizes revenue as a result of costs incurred for goods or services provided to other Federal agencies and the public. Full cost pricing is USACE's standard policy for goods or services provided as required by OMB Circular No. A-25, *User Charges*.

USACE records two types of revenue: exchange and non-exchange. Exchange revenue is the inflow of resources that USACE has earned by providing something of value to the public or another Federal entity at a price. The main sources of exchange revenue are customer orders (reimbursable agreements) and cost sharing revenue.

Customer orders are contracts where USACE provides services under a reimbursable agreement; the related revenue and accounts receivable are recorded simultaneously along with the costs and payables. For nonfederal entities, an advance payment is required and USACE records advances from others. USACE reduces the advances and recognizes revenue as services are provided.

Cost sharing revenue arises from agreements under which USACE constructs assets, the cost of which will be borne in part by another entity (sponsor). Throughout the life of a cost share project, USACE revenue is earned based on the sponsor's proportionate share of project costs incurred. Sponsors are generally required to provide funds in advance and USACE records deferred credits. USACE reduces the deferred credits and recognizes revenue at the time of the withdrawal for costs incurred.

Non-exchange revenue represents resources received by USACE when a good or service is not provided in exchange for that revenue. Non-exchange revenue generally consists of interest earned on investments from excise taxes and port fees, penalties, and donations.

### **1.E. Recognition of Expenses**

USACE recognizes expenses in the period incurred or consumed. USACE's expenditures for capital assets are recognized as operating expenses as the assets are depreciated or amortized.

### **1.F. Accounting for Intragovernmental Activities**

USACE eliminates transactions within USACE Civil Works Program in these consolidated financial statements. Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself.

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government. Costs and revenues with the public represent transactions made between the reporting entity and a nonfederal entity. The classification of revenue or cost as "intragovernmental" or "with the public" is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements.

Generally, financing for the construction of USACE's facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized because the U.S. Treasury does not allocate such costs to USACE.

In accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards*, USACE recognizes imputed financing and cost for unreimbursed goods and services provided

by others. These costs include unreimbursed rent, interest during construction, Judgment Fund payments on behalf of USACE, and employee benefits.

## **1.G. Entity and Nonentity Assets**

The assets are categorized as entity or nonentity. Entity assets consist of resources that USACE has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity assets consist of resources for which USACE maintains stewardship accountability and responsibility to report but are not available for USACE operations.

## **1.H. Funds with the U.S. Treasury**

USACE's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of USACE Finance Center (UFC), the Defense Finance and Accounting Service (DFAS), and the Department of State's financial service centers process the majority of USACE's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issued, electronic fund transfers, interagency transfers, and deposits.

In addition, UFC and DFAS sites submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between USACE's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts sometimes result and are subsequently reconciled on a monthly basis.

## **1.I. Investments**

USACE reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investment using the effective interest rate method or another method obtaining similar results. USACE's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Bureau of Fiscal Service (BFS), on behalf of USACE, invests in nonmarketable securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

Net investments are primarily held by the Harbor Maintenance Trust Fund.

## **1.J. Accounts Receivable**

Accounts receivable includes three categories: accounts, claims, and refunds receivable from other Federal entities or from the public. USACE bases the allowance for uncollectible accounts receivable due from the public on established percentages per aged category of the cumulative balance of delinquent public receivables. USACE regards its intragovernmental accounts receivable balance as fully collectable.

Accounts receivable also includes amounts stemming from long-term water storage agreements based on the cost of construction to be recouped by USACE from the municipality and Louisiana coastal restoration. USACE performs an analysis of the collectability of the receivables periodically and recognizes an allowance for estimated uncollectible amounts from the municipality.

## **1.K. Operating Materials and Supplies**

USACE operating materials and supplies are stated at historical cost under moving average cost method and are adjusted for the results of physical inventories. Operating materials and supplies are expensed when consumed.

### 1.L. General Property, Plant and Equipment

USACE General Property, Plant, and Equipment (PP&E) is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and the acquisition cost exceeds \$25 thousand with the exception of buildings and structures related to hydropower projects which are capitalized regardless of cost.

USACE uses estimates to support the historical costs of its real property assets, including the administrative costs of land, acquired prior to FY 1999, and personal property assets acquired prior to FY 2003. The estimates are necessary because certain supporting documentation to substantiate recorded costs for those assets is no longer available. Management's estimation methods, which are consistent with the principles, relevant to USACE circumstances, as contained in SFFAS No. 6, *Accounting for Property, Plant and Equipment*; SFFAS No. 23, *Eliminating the Category National Defense Property, Plant And Equipment*; and SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*; consist of using a combination of appropriation or engineering documents, or other available real estate, financial, appropriations, and operations data, combined with written management attestation statements, to estimate and support the original acquisition or construction costs recorded for each asset.

Construction in Progress (CIP) is used to accumulate the cost of construction and accumulated costs are transferred from CIP to the relevant asset category when an asset is completed.

### 1.M. Leases

Lease payments for the rental of equipment and operating facilities are classified as operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

### 1.N. Other Assets

Other assets include travel advances that are not reported elsewhere on USACE's Balance Sheet.

### 1.O. Accounts Payable

Accounts payable are the amounts owed, but not yet paid, by USACE for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities. USACE has no known delinquent accounts payable.

### 1.P. Debt

USACE debt consists of the amount owed to the U.S. Treasury for capital improvements to the Washington Aqueduct. USACE entered into an agreement with Arlington County and the City of Falls Church, Virginia, to provide funding to USACE to repay the debt.

### 1.Q. Due to Treasury – General Fund

USACE reported an offsetting custodial liability for amounts Due to Treasury – General Fund for interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury.

### 1.R. Federal Employee and Veterans' Benefits

The Federal Employees and Veterans' Benefits liability consist of the actuarial liability for Federal Employees Compensation Act benefits. The Department of the Army (DA) actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and provided to the DA at the end of each fiscal year. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method

that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds.

### **1.S. Other Liabilities**

USACE reports a liability for funded payroll and benefits, to include civilian earned leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects current pay rates.

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. USACE recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. USACE discloses contingent liabilities when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses.

Examples of loss contingencies include the collectability of receivables, pending or threatened litigation, and possible claims and assessments. USACE's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; property or environmental damages; and contract disputes.

### **1.T. Environmental and Disposal Liabilities**

Environmental and disposal liabilities include future costs to address government-related environmental contamination at USACE sites and other sites at which USACE is directed by Congress to perform remediation work. USACE recognizes a liability for each site as the need for cleanup work becomes probable and costs, based on site-specific engineering estimates, become measurable. Costs to address environmental contamination not caused by the government are recorded as incurred. Cleanup remedies are selected from feasible alternatives using the decision-making process prescribed by the Comprehensive Environmental Response, Compensation, and Liability Act.

### **1.U. Liabilities Not Covered by Budgetary Resources**

Liabilities not covered by budgetary resources are those liabilities for which Congressional action is needed before budgetary resources can be provided.

### **1.V. Net Position**

Net Position consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations include the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended Appropriations also include amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses, and financing sources (including appropriations, revenue, and gains).

### **1.W. Allocation Transfers**

USACE is a party to allocation transfers with other Federal agencies both as a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset



of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. Exceptions to this general rule affecting USACE include certain U.S. Treasury-Managed Trust Funds for whom USACE is the parent in the allocation transfer, but per OMB guidance, the child agencies will report budgetary and proprietary activity relative to these allocation transfers in their financial statements. The U.S. Treasury-Managed Trust Funds, which are included in USACE financial statements, are South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance trust funds. The U.S. Treasury, BFS, on behalf of USACE, makes allocation transfers from the Harbor Maintenance Trust Fund to the Saint Lawrence Seaway Development Corporation and the U.S. Customs and Border Protection agency.

In addition to these funds, USACE received allocation transfers, as the child, from Departments of Agriculture, Interior, Transportation, Energy and the Appalachian Regional Commission.

### 1.X. Change in Accounting Principle

Beginning in fiscal year (FY) 2013 USACE changed its accounting policy for recording recoveries of prior year obligations from a project to project basis to a transaction based recording to more closely align with OMB Circular Number A-11 requirements. This change in accounting principle is applied prospectively and only impacts the Combined Statement of Budgetary Resources for the fiscal year ended September 30, 2013, as such the amount is not comparable with FY 2012.

## NOTE 2. NONENTITY ASSETS

As of September 30

(\$ in thousands)	2013	2012
<b>Nonentity Assets</b>		
<b>Intragovernmental Assets</b>		
Fund Balance with Treasury	\$ 14,518	\$ 11,118
Accounts Receivable	11	-
Total Intragovernmental Assets	14,529	11,118
Cash and Other Monetary Assets	727	1,691
Accounts Receivable	2,227,499	2,408,249
Total Nonfederal Assets	2,228,226	2,409,940
<b>Total Nonentity Assets</b>	2,242,755	2,421,058
<b>Total Entity Assets</b>	55,909,280	51,586,557
<b>Total Assets</b>	\$ 58,152,035	\$ 54,007,615

### Other Information

Intragovernmental Nonentity Fund Balance with Treasury consists of amounts collected into deposit and suspense accounts and is not available for use in operations. Deposit and suspense accounts are used to record amounts held temporarily until ownership is determined. USACE is acting as an agent or custodian for funds awaiting distribution.

Intragovernmental Nonentity Accounts Receivable represents all receivables from federal sources where USACE does not have specific statutory authority to retain the receipts. This receivable is for a long-term agreement for an easement.

Cash and Other Monetary Assets reflect the Disbursing Officer's Accountability which is comprised of foreign currency. The Disbursing Officer acts as an agent for the U. S. Treasury.

Nonfederal Accounts Receivable represents all receivables from nonfederal sources where USACE does not have specific statutory authority to retain the receipts. These receivables consist of multiple types of long-term agreements such as easements, sale of hydroelectric power, recreational development, and long-term water storage agreements.

Note 1.J "Accounts Receivable", Note 5, "Accounts Receivable, Net", and Note 13, "Due to Treasury – General Fund and Other Liabilities", provide additional information related to long-term water storage agreements.

### NOTE 3. FUND BALANCE WITH TREASURY

As of September 30

(\$ in thousands)	2013	2012
<b>Fund Balances</b>		
General Funds	\$ 14,896,365	\$ 11,675,098
Revolving Funds	1,684,548	1,579,441
Trust Funds	107,468	102,746
Special Funds	91,372	81,458
Contributed Funds	1,093,463	979,219
Other Fund Types	54,538	43,521
<b>Total Fund Balances</b>	<b>\$ 17,927,754</b>	<b>\$ 14,461,483</b>

### Status of Fund Balance with Treasury

As of September 30

(\$ in thousands)	2013	2012
<b>Unobligated Balance</b>		
Available	\$ 12,357,556	\$ 8,596,136
Unavailable	4,221	13,941
<b>Obligated Balance not yet Disbursed</b>	<b>7,814,025</b>	<b>8,374,732</b>
<b>Nonbudgetary FBWT</b>	<b>92,907</b>	<b>84,044</b>
<b>Non FBWT Budgetary Accounts</b>	<b>(2,340,955)</b>	<b>(2,607,370)</b>
<b>Total</b>	<b>\$ 17,927,754</b>	<b>\$ 14,461,483</b>

### Other Information

The Status of Fund Balance with Treasury reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds. USACE is the lead agency for reporting the financial data for the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration trust funds. These trust funds remain invested and restricted for use until transferred to meet current expenditure requirements.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit and clearing accounts.

Non FBWT Budgetary Accounts reduces the Status of FBWT and includes borrowing authority, investment accounts, accounts receivable, and unfilled orders without advance from customers.

**NOTE 4. INVESTMENTS AND RELATED INTEREST**

As of September 30	<b>2013</b>				
<i>(\$ in thousands)</i>	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>Intragovernmental Securities</b>					
Nonmarketable, Market-Based	\$ 8,099,987	Effective Interest	(127,288)	7,972,699	8,078,345
Accrued Interest	26,215		-	26,215	26,215
<b>Total Intragovernmental Securities</b>	<b>\$ 8,126,202</b>		<b>(127,288)</b>	<b>7,998,914</b>	<b>8,104,560</b>

As of September 30	<b>2012</b>				
<i>(\$ in thousands)</i>	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>Intragovernmental Securities</b>					
Nonmarketable, Market-Based	\$ 7,264,578	Effective Interest	(57,704)	7,206,874	7,416,234
Accrued Interest	32,907		-	32,907	32,907
<b>Total Intragovernmental Securities</b>	<b>\$ 7,297,485</b>		<b>(57,704)</b>	<b>7,239,781</b>	<b>7,449,141</b>

**Other Information**

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for dedicated collections are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to USACE as evidence of its receipts. Treasury securities are assets to USACE and liabilities to the U.S. Treasury. Because USACE and the U.S. Treasury are both Governmental entities, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide USACE with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When USACE requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Total net investments among the Harbor Maintenance Trust Fund for FY 2013 and FY 2012 are \$7.9 billion and \$7.1 billion, respectively.

The U.S. Treasury also provides the investment market value based on the bid price provided by the Federal Reserve Bank of New York on September 30, 2013 and September 30, 2012, respectively.

**NOTE 5. ACCOUNTS RECEIVABLE, NET**

As of September 30	<b>2013</b>		
<i>(\$ in thousands)</i>	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 563,870	\$ N/A	\$ 563,870
Nonfederal Receivables (From the Public)	\$ 2,250,390	\$ (296)	\$ 2,250,094
<b>Total Accounts Receivable</b>	<b>\$ 2,814,260</b>	<b>\$ (296)</b>	<b>\$ 2,813,964</b>

As of September 30	<b>2012</b>		
<i>(\$ in thousands)</i>	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 606,610	\$ N/A	\$ 606,610
Nonfederal Receivables (From the Public)	\$ 2,431,791	\$ (3,018)	\$ 2,428,773
<b>Total Accounts Receivable</b>	<b>\$ 3,038,401</b>	<b>\$ (3,018)</b>	<b>\$ 3,035,383</b>

## Other Information

As of September 30, 2013 and September 30, 2012, Accounts Receivables Intragovernmental include \$444.3 million and \$466.4 million, respectively, for amounts received from the Coastal Wetlands Restoration Trust Fund for projects in the New Orleans District.

As of September 30, 2013 and September 30, 2012, Accounts Receivable from the Public, net of allowances, stemming from long-term water storage and Louisiana coastal restoration, flood control and hurricane protection agreements include \$2.2 billion and \$2.2 billion, respectively. These agreements have maturity dates ranging from two to fifty years, and interest rates based on the U.S. Treasury effective rate at the time of the agreement.

## NOTE 6. CASH AND OTHER MONETARY ASSETS

As of September 30

(\$ in thousands)	2013	2012
Cash	\$ -	\$ 33
Foreign Currency	727	1,658
<b>Total Cash and Foreign Currency</b>	<b>\$ 727</b>	<b>\$ 1,691</b>

## Other Information

Cash is the total of cash resources under the control of USACE, which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts.

USACE conducts operations overseas on behalf of the U.S. Government which involves the use of foreign currency. Foreign currency fluctuations require adjustments to the original obligation amount at the time of payment. USACE does not separately identify currency fluctuations.

USACE translates foreign currency to U.S. dollars utilizing the U.S. Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the Federal Government for acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. There are no significant effects from changes in the foreign currency exchange rate.

## NOTE 7. OPERATING MATERIALS AND SUPPLIES

As of September 30

(\$ in thousands)	2013	2012
Operating Materials and Supplies:		
Items Held for Use	\$ 7,798	\$ 63,533
<b>Total</b>	<b>\$ 7,798</b>	<b>\$ 63,533</b>

## Other Information

Operating materials and supplies (OM&S) is comprised of personal property to be consumed in normal operations. The OM&S category includes materials used for constructing riverbank stabilization devices, and spare and repair parts. USACE applies moving average cost flow assumptions to arrive at the historical cost of the ending OM&S and cost of goods consumed.

As of September 30, 2013 and 2012, there were no differences between the carrying amount and the net realizable value of OM&S. There are no restrictions on the use of OM&S.

As of September 30, 2013 and 2012, USACE does not have inventories, stockpile materials, seized or forfeited properties, or goods held under price support and stabilization programs, as defined in SFFAS No. 3, *Accounting for Inventory and Related Property*.



**NOTE 8. GENERAL PROPERTY, PLANT & EQUIPMENT, NET**

As of September 30

(\$ in thousands)	2013				
	Depreciation/ Amortization Method	Service Life (yrs)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>Major Asset Classes</b>					
Land	N/A	N/A	\$ 9,040,646	N/A	\$ 9,040,646
Buildings, Structures, and Facilities	S/L	20 - 100	31,876,370	\$ (16,636,063)	15,240,307
Leasehold Improvements	S/L	Lease term	40,382	(33,336)	7,046
Software	S/L	2 - 10	132,751	(96,126)	36,625
General Equipment	S/L	5 - 50	1,971,684	(985,349)	986,335
Construction-in- Progress	N/A	N/A	4,091,875	N/A	4,091,875
<b>Total General PP&amp;E</b>			<b>\$ 47,153,708</b>	<b>\$ (17,750,874)</b>	<b>\$ 29,402,834</b>

As of September 30

(\$ in thousands)	2012				
	Depreciation/ Amortization Method	Service Life (yrs)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>Major Asset Classes</b>					
Land	N/A	N/A	\$ 9,021,172	N/A	\$ 9,021,172
Buildings, Structures, and Facilities	S/L	20 - 100	31,195,733	\$ (16,090,489)	15,105,244
Leasehold Improvements	S/L	Lease term	39,535	(31,951)	7,584
Software	S/L	2 - 10	114,519	(88,826)	25,693
General Equipment	S/L	5 - 50	1,892,105	(940,225)	951,880
Construction-in- Progress	N/A	N/A	4,094,056	N/A	4,094,056
<b>Total General PP&amp;E</b>			<b>\$ 46,357,120</b>	<b>\$ (17,151,491)</b>	<b>\$ 29,205,629</b>

**Legend for Depreciation Methods:**

S/L = Straight Line      N/A = Not Applicable

**Other Information**

USACE currently operates and maintains 75 hydroelectric power plants, generating approximately 24% of America's hydroelectric power. All power generated by these hydroelectric power plants is transmitted to four Power Marketing Administrations for distribution to power companies across the United States. The service life for USACE's hydropower project related assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The hydropower project related assets make up \$10.3 billion of the net book value of USACE's PP&E in FY 2013 and \$10.2 billion in FY 2012.

As of September 30, 2013 and 2012, approximately \$26.2 billion of the acquisition value recorded in the PP&E line is being supported by alternate methods described in Note 1.L "General Property, Plant, and Equipment". The net book value is \$10.3 billion at September 30, 2013, and \$10.7 billion at September 30, 2012.

Note 9 "Stewardship Property, Plant and Equipment" provides the physical quantity information for multi-use heritage assets that are recognized and presented with general PP&E in the basic financial statements.

There are no restrictions on the use or convertibility of general PP&E.

## NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT (STEWARDSHIP PP&E)

### Information Related to Stewardship PP&E

Stewardship PP&E are assets whose properties resemble those of the General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets. Heritage assets are items of historical, natural, cultural, educational, or artistic significance, (e.g., aesthetic) or items with significant architectural characteristics. Heritage assets are expected to be preserved indefinitely. In the case where a heritage asset serves both a heritage function and general government operations, the asset is considered a multi-use heritage asset. Multi-use heritage assets are recognized and presented with general PP&E in the basic financial statements.

### Relevance to the USACE Mission

USACE, as a steward of public land, has the responsibility for ensuring that properties of a historical or traditional nature located on USACE lands are preserved and managed appropriately. USACE implements Cultural Resource Management in a positive manner that fulfills the requirements of all laws, regulations, and policies, for all project undertakings in an environmentally and economically sound manner, and in the interest of the American public.

### Stewardship Policy

USACE has the responsibility to manage cultural resources and heritage properties on USACE-owned lands. Engineering Regulations 1105-2-100 and 1130-2-540 provide the basic guidance for the USACE Civil Works Program. The term “cultural resources” refers to any building, site, structure, object, or other material significant in history, architecture, archeology, or culture. Historic properties are sites that are eligible for inclusion in National Register of Historic Places. The National Register is an inventory of historic properties important in our Nation’s history, culture, architecture, archeology, and engineering. The National Register office within the National Park Service maintains the inventory. Properties are either listed on the National Register, have formally been determined eligible, or appear to meet eligibility criteria to be listed. In addition to the Engineering Regulations, USACE also adheres to Army Regulations 200-4 and 870-20 related to managing cultural resources and heritage assets.

### Heritage Asset Categories

1. **Buildings and Structures.** Buildings and structures are those heritage assets listed on, or eligible for listing on, the National Register of Historic Places. Buildings and structures include a range of historic resources from the Crooked Creek Lake Dam located in Pennsylvania and the Indiana and Michigan Canal in Illinois. They also include some non-traditional structures, such as the War Eagle, a steamer that caught fire in Lacrosse, Wisconsin in 1870. There are 95 buildings and structures listed on the National Register and 261 determined eligible for listing. There are a total of 356 heritage assets in this category; this reflects an increase of 44 building and structures, 34 of which were reclassified as archeological sites, from the prior fiscal yearend report. Additionally, we noted 99 building and structures as multi-use heritage assets within our districts and divisions. An example of a multi-use heritage asset within the Corps is the Mill Spring Mill in Kentucky, which is listed on the National Register of historic places and serves as a full service visitor center.
2. **Archeological Sites.** Cemeteries and archeological sites are archeological properties listed on or eligible for listing in the national Register of Historic Places. The current National Register inventory for USACE included 118 archeological properties listed and 511 archeological properties determined to be eligible for listing. This total of 629 archeological sites reflects an increase of 22 from the prior fiscal yearend report.
3. **Museum Collection Items (Objects).** Museum collection items are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant technical or architectural characteristics. These items are divided into two subcategories: fine art and objects. These include museum collection items that have historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance. USACE added a net of 6 items to the Museum Collection Items for FY 2013.

	As of 30 September 2011	Increase	Decrease	As of 30 September 2012	Increase	Decrease	As of 30 September 2013
Building and Structures	360	31	(79)	312	53	(9)	356
Archeological Sites	561	59	(13)	607	30	(8)	629
Museum Collection Items	201	16	(6)	211	8	(2)	217

### Acquisition and Withdrawal of Heritage Assets

USACE reported the additions and deletions through its normal process of established regulations for identifying Heritage Asset. USACE provides this information to the keeper of the National Register of Historic Places at the Department of the Interior, National Park Service. USACE adds museum collections as items are unearthed or otherwise acquired on USACE lands. USACE removes museum collections when items are donated to museums, universities, or returned to tribes.

## NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30

(\$ in thousands)

	2013	2012
<b>Intragovernmental Liabilities</b>		
Debt	\$ 1,721	\$ 4,273
Due to Treasury - General Fund	2,227,470	2,408,205
Other	238,485	233,920
<b>Total Intragovernmental Liabilities</b>	<b>\$ 2,467,676</b>	<b>\$ 2,646,398</b>
Federal Employee and Veterans' Benefits	268,952	261,352
Environmental and Disposal Liabilities	977,023	998,241
Contingent Liabilities	440,456	450,335
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 4,154,107</b>	<b>\$ 4,356,326</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 3,133,179</b>	<b>\$ 2,996,689</b>
<b>Total Liabilities</b>	<b>\$ 7,287,286</b>	<b>\$ 7,353,015</b>

### Other Information

Intragovernmental Liabilities – Debt is comprised of the amount owed by USACE to the U.S. Treasury for capital improvements to the Washington Aqueduct. Arlington County and the City of Falls Church, Virginia provide funding to USACE to repay the debt. Refer to Note 11, “Debt,” for additional details and disclosures.

Intragovernmental Liabilities – Due to Treasury - General Fund includes offsetting custodial liability to accounts receivable. The custodial liability is for amounts that will be deposited in the general fund of the U.S. Treasury when collected and are primarily related to long-term water storage and Louisiana coastal restoration, flood control and hurricane protection agreements. Budgetary resources are not required for these types of liabilities.

Intragovernmental Liabilities – Other includes Judgment Fund liabilities-Contract Dispute Act (CDA), and workmen’s compensation liabilities under the Federal Employees Compensation Act (FECA). The FECA liability will be funded in future appropriations.

Federal Employee and Veterans’ Benefits include actuarial liability for FECA. Refer to Note 13, “Due to Treasury - General Fund and Other Liabilities,” for additional details and disclosures. The FECA actuarial liability is a future funded expense and will be funded in future appropriations.

Environmental and Disposal Liabilities represent estimated cleanup costs for environmental liabilities, which will be funded in future appropriations. Refer to Note 12, “Environmental and Disposal Liabilities,” and Note 13, “Due to Treasury - General Fund and Other Liabilities,” for additional details and disclosures.

Contingent liabilities represent probable losses related to lawsuits filed against USACE. Contingent liabilities may be funded in future appropriations. Refer to Note 14 "Contingencies" for additional details and disclosures.

## NOTE 11. DEBT

As of September 30

(\$ in thousands)

	2013		
	Beginning Balance	Net Borrowing	Ending Balance
<b>Agency Debt (Intragovernmental)</b>			
Debt to the Treasury	\$ 4,273	\$ (2,552)	\$ 1,721

As of September 30

(\$ in thousands)

	2012		
	Beginning Balance	Net Borrowing	Ending Balance
<b>Agency Debt (Intragovernmental)</b>			
Debt to the Treasury	\$ 5,114	\$ (841)	\$ 4,273

## Other Information

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. USACE executed three promissory notes totaling \$75.0 million with the U.S. Treasury for capital improvements to the Washington Aqueduct. USACE entered into agreements with Arlington County and the City of Falls Church, Virginia to provide funding to USACE to repay the debt. During FY 2013, the city of Falls Church, Virginia provided its entire portion of the funding to USACE. USACE recognized a receivable for \$1.7 million in principal due from Arlington County as of September 30, 2013. The remaining debt balance is scheduled to be paid off in FY 2023. Actual cumulative amount of funds borrowed from the U.S. Treasury was \$74.9 million of which \$1.7 million was outstanding at September 30, 2013 and \$4.3 million was outstanding at September 30, 2012. There were no withdrawals from the U.S. Treasury for FY 2013 or FY 2012. Total principal repayments in FY 2013 were \$2.6 million and total principal repayments in FY 2012 were \$841 thousand.

## NOTE 12. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30

(\$ in thousands)

	2013	2012
Formerly Utilized Sites Remedial Action Program (FUSRAP)	\$ 967,478	\$ 994,716
Other	9,545	3,525
<b>Total Environmental and Disposal Liabilities</b>	<b>\$ 977,023</b>	<b>\$ 998,241</b>

## Assumptions and Uncertainties

Estimating environmental liabilities requires making assumptions about future activities and is inherently uncertain. The cleanup estimates reflect local decisions and expectations as to the extent of cleanup and site reuse, and include assessments of the effort required to complete the project based on data collected during the remedial investigation and feasibility study phases of each project. For most projects, the volume of contaminated material to be removed and the cost to dispose of such material, including transportation, are the elements of the estimates with the greatest uncertainty and potential for significant increase in project costs. For some projects the estimate includes contingency provisions intended to account for the uncertainties associated with estimating these elements and other factors.

Based on the inherent uncertainties associated with environmental cleanup the initial cost estimate for each site is not exact and will change as more relevant data becomes available. Estimates are refined as alternative approaches are evaluated and a preferred alternative is approved in a record of decision. USACE recognizes expenses related to cleanup costs during the period incurred.



USACE considers various key factors in determining whether future outflows of resources can be reasonably estimated, including:

- ★ Completion of remedial investigation/feasibility study or other study,
- ★ Experience with similar site and/or conditions, and
- ★ Availability of remediation technology.

In addition to the liability amount reported above, USACE is subject to other potential environmental liabilities for which the exact amount or range of loss is unknown.

### Formerly Utilized Sites Remedial Action Program

USACE is responsible for the Formerly Utilized Sites Remedial Action Program (FUSRAP), established to respond to radiological contamination from early U.S. Atomic Energy and Weapons Programs. For each FUSRAP site, USACE has received Congressional authorization to ascertain the extent of environmental contamination; select a remedy with input from state and federal authorities and local stakeholders; perform the cleanup work; and dispose of wastes. After cleanup work is completed at each site, USACE transfers responsibility for long-term surveillance and monitoring to the U.S. Department of Energy.

Changes in the FUSRAP liability during the fiscal years ended September 30, 2013 and 2012 resulted from inflation adjustments to reflect changes in costs for the current year, cleanup activities performed, and adjustments to estimates of soil volumes.

### Other Environmental Liabilities

Other environmental liabilities relate to environmental contamination at current or former USACE project sites.

Beginning in FY 2013, USACE implemented Technical Bulletin 2006-01, Recognition and Measurement of Asbestos-Related Cleanup Costs, resulting in an additional environmental liability of approximately \$5.6 million as of September 30, 2013.

## NOTE 13. DUE TO TREASURY - GENERAL FUND AND OTHER LIABILITIES

As of September 30  
(\$ in thousands)

	2013		
	Current Liability	Noncurrent Liability	Total
<b>Intragovernmental</b>			
Due to Treasury-General Fund	\$ 44,896	\$ 2,182,574	\$ 2,227,470
Advances from Others	361,863	-	361,863
Deposit Funds and Suspense Account Liabilities	(416)	-	(416)
Disbursing Officer Cash	727	-	727
Judgment Fund Liabilities	189,693	-	189,693
FECA Reimbursement to the Department of Labor	22,354	25,711	48,065
Employer Contribution and Payroll Taxes Payable	31,775	-	31,775
<b>Total Intragovernmental</b>	<b>\$ 650,892</b>	<b>\$ 2,208,285</b>	<b>\$ 2,859,177</b>
<b>Other Liabilities</b>			
Accrued Funded Payroll and Benefits	\$ 430,992	\$ -	\$ 430,992
Advances from Others	360,846	-	360,846
Deferred Credits	1,092,309	-	1,092,309
Deposit Funds and Suspense Accounts	14,557	-	14,557
Contract Holdbacks	60,097	-	60,097
Contingent Liabilities	440,456	-	440,456
<b>Total Other Liabilities</b>	<b>\$ 3,050,149</b>	<b>\$ 2,208,285</b>	<b>\$ 5,258,434</b>

As of September 30  
(\$ in thousands)

	2012		
	Current Liability	Noncurrent Liability	Total
<b>Intragovernmental</b>			
Due to Treasury-General Fund	\$ 197,217	\$ 2,210,988	\$ 2,408,205
Advances from Others	550,502	-	550,502
Deposit Funds and Suspense Account Liabilities	509	-	509
Disbursing Officer Cash	1,691	-	1,691
Judgment Fund Liabilities	183,443	-	183,443
FECA Reimbursement to the Department of Labor	22,281	28,196	50,477
Employer Contribution and Payroll Taxes Payable	30,299	-	30,299
<b>Total Intragovernmental</b>	<b>\$ 985,942</b>	<b>\$ 2,239,184</b>	<b>\$ 3,225,126</b>
<b>Other Liabilities</b>			
Accrued Funded Payroll and Benefits	\$ 476,961	\$ -	\$ 476,961
Advances from Others	44,748	-	44,748
Deferred Credits	972,087	-	972,087
Deposit Funds and Suspense Accounts	11,161	-	11,161
Contract Holdbacks	68,300	-	68,300
Contingent Liabilities	450,335	-	450,335
<b>Total Other Liabilities</b>	<b>\$ 3,009,534</b>	<b>\$ 2,239,184</b>	<b>\$ 5,248,718</b>

## Other Information

Intragovernmental - Due to Treasury – General Fund is the custodial liability held with U.S. Treasury for repayment of interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury. USACE records a custodial liability for payables from water storage and hydraulic mining contracts and for flood control, coastal restoration and hurricane protection measures with the Coastal Protection and Restoration Authority of Louisiana.

Judgment Fund Liabilities - USACE has recognized an unfunded liability arising from Judgment Fund Contract Disputes Act (CDA) settlements in accordance with a provision of the CDA requiring agencies to reimburse the Judgment Fund for payments to claimants in cases involving federal contract disputes. USACE cannot fund the CDA claims since it is funded for projects and does not receive funding for this type of claim. USACE sought supplemental appropriations for payment of CDA claims in FY 2000, FY 2006, and FY 2007, but these requests were not approved. The FY 2013 budget does not provide funding for payment of the CDA claims.

## NOTE 14. CONTINGENCIES

### Legal Contingencies

The USACE is a party in various administrative proceedings and legal actions related to claims for environmental damage, tort actions, and contractual bid protests. The USACE has accrued contingent liabilities for legal actions where USACE's Office of the Chief Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. USACE discloses amounts recognized as contingent liabilities in Note 13, "Due to Treasury – General Fund and Other Liabilities."

The U.S. Army Claims Service (USARCS) supervises processing, investigates, adjudicates, and negotiates the settlement of non-contractual administrative claims on behalf of and against the Department of the Army (including USACE); however, because of their uniqueness and size, the hurricane Katrina-related administrative claims are processed by the U.S. Department of Justice (DOJ). By law, administrative claims filed against the Government are either adjudicated, denied, or are effectively denied if no action is taken within six months from the claim filing date. Barring such resolution within six months from the date of filing, claimants may file legal cases with the Federal Court. Filing of an administrative claim for resolution is a required precursor to a claimant's filing against the Government in Federal Court.

Claims settled below the statutory threshold of \$2,500 are paid using Civil Works appropriations; settlements above this threshold are referred to the Judgment Fund for payment. With the exception of CDA settlements disclosed in Note 13, amounts that are paid by the Judgment Fund are recorded as expenses and imputed financing sources.

### **Probable Likelihood of an Adverse Outcome**

The USACE is subject to potential liabilities where adverse outcomes are probable, and claims are approximately \$440.5 million and \$450.3 million as of September 30, 2013 and 2012, respectively. The contingent liabilities were included in Note 13.

### **Reasonably Possible Likelihood of an Adverse Outcome**

The USACE is subject to potential liabilities where adverse outcomes are reasonably possible, and claims ranged from \$11 to \$7.2 billion as of September 30, 2013. At September 30, 2012, reasonably possible claims ranged from \$428.8 thousand to \$8.3 billion.

### **Hurricane Katrina-Related Claims and Litigation**

Various parties filed administrative claims and lawsuits against USACE as a result of hurricane Katrina in 2005. Most of the Katrina-related litigation was consolidated before a single federal judge sitting in the Federal District Court in New Orleans. The court, for case management purposes, classified the individual cases into three categories and ordered the filing of superseding, master complaints in most categories: Levee, Mississippi River Gulf Outlet (MRGO), and Barge. The MRGO category, Barge category, and Levee category, involving similar geographic areas, are most relevant to USACE at this point. All Katrina-related tort litigation has now concluded in favor of the Government.

Concerning the Levee Master consolidated class action complaint, the Court granted the United States' motion to dismiss. By Order entered on October 14, 2010, the Court certified this decision as a final judgment. On September 24, 2012, the U.S. Fifth Circuit Court of Appeals issued a substitute ruling affirming the trial court order of dismissal. The plaintiffs appealed this decision on the Supreme Court in other matters, but did not appeal the relevant holding in this matter, effectively ending the litigation.

In the MRGO litigation, the Plaintiffs initial appeal of the trial court's holding in favor of the Government was dismissed. In light of the Supreme Court's decision in *Robinson*, the plaintiffs indicated that they will not reinstate their appeal. The judge signed an order of dismissal in the case in June 2013.

In the Ingram Barge case, by Order entered June 22, 2009, the Court severed and stayed the third party claims of Lafarge against the United States until 90 days after a decision is rendered by the Fifth Circuit in *Robinson* or until 90 days after a final resolution of *Robinson* by the Supreme Court in the event that a writ of certiorari is sought, or until the passage of 18 months from the Order, whichever date is sooner. This Order grants the United States' motion brought as a result of the Court's stay issued on May 4, 2009 in the MRGO category. As a result, the United States did not participate in the trial conducted in 2010, in which the Court found that the barge did not cause the two floodwall breaches. Plaintiffs' claims have now been dismissed in their entirety.

In the *Robinson* case, after a trial court previously had ruled against the Government, the Fifth circuit, on September 24, 2012, reversed its own prior opinion and affirmed all judgments in favor of the government and reversed all judgments in favor of the plaintiffs. The plaintiffs appealed the decision to the Supreme Court. On 24 June 2013, the Supreme Court denied the appeal, effectively ending the litigation.

In light of the resolution of these Katrina tort litigation cases, all pending Katrina administrative claims (350,000) are expected to be formally denied by the Government in the near future. The Department of Justice is currently working with USARCS on the logistics of issuing several hundred thousand claim denial notification letters.

## Other Litigation

In addition to the matters described above, USACE is subject to other potential liabilities for which the exact amount or range of loss is unknown.

## Commitments and Other Contingencies

The USACE does not have undelivered orders for open contracts citing cancelled appropriations which may remain unfilled or unreconciled, and for which the reporting entity may incur a contractual commitment for payment.

The USACE does not have contractual arrangements which may require financial obligations, such as fixed price contracts with escalation, price redetermination, or incentive clauses, which may require future financial obligations.

## NOTE 15. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Year ended September 30

(\$ in thousands)

	2013	2012
Intragovernmental Costs	\$ 1,671,544	\$ 1,645,279
Public Costs	8,291,797	9,382,051
<b>Total Costs</b>	<b>\$ 9,963,341</b>	<b>\$ 11,027,330</b>
Intragovernmental Earned Revenue	\$ (2,288,527)	\$ (2,624,632)
Public Earned Revenue	(622,374)	(893,025)
<b>Total Earned Revenue</b>	<b>\$ (2,910,901)</b>	<b>\$ (3,517,657)</b>
<b>Net Cost of Operations</b>	<b>\$ 7,052,440</b>	<b>\$ 7,509,673</b>

## Other Information

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The consolidated Statement of Net Cost (SNC) is unique because its principles are driven on understanding the net cost of programs and/or organizations that the Federal Government supports through appropriations or other means. The SNC represents the Civil Works Program for USACE.

USACE incurred no costs associated with acquiring, constructing, improving, reconstructing or renovating heritage assets.

## NOTE 16. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

### Other Information

Appropriations received on the Statement of Budgetary Resources (SBR) should not and do not agree with appropriations received on the Statement of Changes in Net Position (SCNP) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference is due to additional resources of \$1.0 billion during FY 2013 and \$1.9 billion during FY 2012 in appropriated trust, contributed, and special fund receipts included in Appropriation on the SBR. These funds do not update the proprietary appropriations received amount reported on the SCNP. Refer to Note 17, "Statement of Budgetary Resources," for additional disclosures and details.

## NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30

(\$ in thousands)

	2013	2012
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 6,434,941	\$ 6,928,329

### Other Information

Category A apportionments distribute budgetary resources by fiscal quarter. Category B apportionments distribute budgetary resources by activity, project, object or a combination of these categories. Exempt budgetary resources are not subject to apportionment because they are not appropriated funds. Funding sources for exempt category comes from sources outside the Federal Government.

For FY 2013, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A SBR includes: \$8.2 billion for direct obligations; \$9.7 billion for reimbursable obligations; and \$47.5 million for reimbursable obligations exempt from apportionment. USACE did not report any direct obligations exempt from apportionment. USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

For FY 2012, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A SBR includes: \$8.2 billion for direct obligations; \$10.1 billion for reimbursable obligations; and \$51.5 million for reimbursable obligations exempt from apportionment. USACE did not report any direct obligations exempt from apportionment. USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

Intraentity transactions have not been eliminated because the SBR is presented as a combined statement.

Permanent Indefinite Appropriations - USACE receives receipts from hydraulic mining in California; leases of land acquired for flood control, navigation, and allied purposes; and licenses under the Federal Power Act for improvements of navigable water including maintenance and operation of dams. These funds are available for expenditure.

There are no legal arrangements that affect the use of unobligated balances of budget authority.

There are differences between amounts reported on the SBR and the SF133, Report on Budget Execution (SF133) for FY 2013 and FY 2012. Treasury account symbol 96X6094 (Advances from the District of Columbia) is not included in the SF133. This money is not from appropriated funds and is not included in the OMB's data for budget formulation. USACE does include this appropriation in the SBR.

The President's Budget with actual figures for FY 2013 has not yet been published. The FY 2015 President's Budget will include actual figures for FY 2013 reporting. The FY 2015 President's Budget can be found at: <http://www.whitehouse.gov/omb>, early in FY 2014. The following chart is a reconciliation of the FY 2014 President's Budget actual figures for FY 2012 to FY 2012 Statement of Budgetary Resources as required by OMB Circular No. A-136.



**Department of Defense**  
**U.S. Army Corps of Engineers - Civil Works**  
**RECONCILIATION OF FY 2012 SBR TO 2014 PRESIDENT'S BUDGET**

	Budgetary Resources	Obligations Incurred	Offsetting Receipts	Net Outlays	
(\$ in millions)	Line 1930	Line 0900	Line 0299	Line 4190	
SBR	26,961	18,351	553	8,335	<b>Explanation for reconciling differences</b>
Reconciling Difference	(50)	(35)			Expired American Recovery and Reinvestment Act (ARRA) accounts are included in the SBR, but not the President's Budget.
Reconciling Difference	(69)	(51)		(5)	The SBR includes Treasury symbol 96X6094 for advances from the District of Columbia for work on the Washington Aqueduct. It is not included in the President's Budget since these are not appropriated funds.
Reconciling Difference			(92)		General fund clearing accounts are included as distributed offsetting receipts on the SBR in accordance with DFAS year-end guidance. It is not included in the President's Budget amount.
Reconciling Difference			1,680		The President's Budget line 0299 includes total receipts and collections for the trust funds. The SBR includes only USACE's distributed offsetting receipts to South Dakota Terrestrial Wildlife Fund per Treasury Financial Manual, Federal Account Symbols and Titles (FAST Book). Other trust fund receipts are included in the budgetary resources, line 0299.
Reconciling Difference			8		Per the FAST Book, receipt account 96R 5125 is not a distributed offsetting receipt account and is not included in the SBR as a distributed offsetting receipt. It is included in the President's Budget amount.
Total	26,842	18,265	2,149	8,330	
President's Budget	26,842	18,264	2,148	8,330	
Difference	0	(1)	(1)	(0)	Due to rounding.

## NOTE 18. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

Year ended September 30

(\$ in thousands)

	2013	2012
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated:</b>		
Obligations incurred	\$ 17,917,199	\$ 18,351,033
Less: Spending authority from offsetting collections and recoveries	(11,143,432)	(11,126,177)
Obligations net of offsetting collections and recoveries	6,773,767	7,224,856
Less: Offsetting receipts	(806,706)	(552,645)
Net obligations	5,967,061	6,672,211
<b>Other Resources:</b>		
Donations and forfeitures of property	2,462	266
Transfers in/out without reimbursement	135,538	136,029
Imputed financing from costs absorbed by others	306,695	325,537
Net other resources used to finance activities	444,695	461,832
<b>Total resources used to finance activities</b>	<b>\$ 6,411,756</b>	<b>\$ 7,134,043</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders	\$ 493,391	\$ 1,761,497
Unfilled Customer Orders	(78,630)	(1,053,829)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	321,904	152,385
Resources that finance the acquisition of assets	(5,162)	(7,007)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Other	(190,500)	(174,835)
<b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>	<b>\$ 541,003</b>	<b>\$ 678,211</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$ 6,952,759</b>	<b>\$ 7,812,254</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
Change in environmental and disposal liability	\$ (21,218)	\$ (80,351)
Change in exchange revenue receivable from the public	117,441	(86,645)
Other	1,558	19,484
<b>Total components of Net Cost of Operations that will not Require or Generate Resources in future periods</b>	<b>\$ 97,781</b>	<b>\$ (147,512)</b>
Components not Requiring or Generating Resources:		
Depreciation and amortization	\$ 643,444	\$ 636,732
Revaluation of assets or liabilities	20,903	1,424
Other		
Cost of Goods Sold	814	373
Operating Material and Supplies Used	17,584	7
Cost Capitalization Offset	(781,942)	(1,024,698)
Other	101,097	231,093
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources</b>	<b>1,900</b>	<b>(155,069)</b>
<b>Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>99,681</b>	<b>(302,581)</b>
<b>Net Cost of Operations</b>	<b>\$ 7,052,440</b>	<b>\$ 7,509,673</b>

## Other Information

The following note schedule lines are presented as combined instead of consolidated due to intraentity budgetary transactions not being eliminated:

- ★ Obligations Incurred
- ★ Spending Authority from Offsetting Collections and Recoveries
- ★ Obligations Net of Offsetting Collections and Recoveries
- ★ Offsetting Receipts
- ★ Net Obligations
- ★ Undelivered Orders
- ★ Unfilled Customer Orders

Composition of Other Resources – Other, and Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations: Other – The FY 2013 and FY 2012 amounts include the net amount of assets transferred between USACE and other government agencies.

Composition of Components Requiring or Generating Resources in Future Periods: Other - The FY 2013 amounts include the current year increase to unfunded Judgment Fund Contract Disputes Act claims and Federal Employees' Compensation (FECA) actuarial liability. The FY 2013 amounts also include the current year decrease to the FECA liability. The FY 2012 amount includes current year Judgment Fund Contract Disputes Act claims and current year unfunded expense for the FECA liability.

Composition of Components not Requiring or Generating Resources: Other – The FY 2013 and FY 2012 amounts include bad debt expense and cost capitalization offset expense. The cost capitalization offset account provides a mechanism to offset all direct costs in the expense accounts when those costs are subsequently capitalized into an in-process account. Current year costs associated with nonfederal cost share projects in the contributed fund and costs related to the acquisition of operating materials and supplies in the revolving fund are also recorded as other expenses not requiring budgetary resources. In FY 2013 and FY 2012 costs associated with fish mitigation studies in the general fund are also recorded as other expenses not requiring budgetary resources.

**NOTE 19. FUNDS FROM DEDICATED COLLECTIONS**

As of September 30

(\$ in thousands)

**BALANCE SHEET****ASSETS**

	Maintenance Fund	Contributed Fund	Other Funds	Eliminations	Consolidated Total
Fund balance with Treasury	\$ 107,468	\$ 1,093,463	\$ 91,372	\$ 5,269,034	\$ 6,561,337
Investments	7,877,544	-	-	-	7,877,544
Accounts and Interest Receivable	448,808	3,941	1,795	(2,945)	451,599
Other Assets	659,626	30,041	959	-	690,626
Total Assets	\$ 9,093,446	\$ 1,127,445	\$ 94,126	\$ 5,266,089	\$ 15,581,106

**LIABILITIES and NET POSITION**

Accounts Payable and Other Liabilities	13,001	1,125,444	107	(3,396)	1,135,156
Total Liabilities	\$ 13,001	\$ 1,125,444	\$ 107	\$ (3,396)	\$ 1,135,156
Cumulative Results of Operations	9,080,445	2,001	94,019	5,269,485	14,445,950
Total Liabilities and Net Position	\$ 9,093,446	\$ 1,127,445	\$ 94,126	\$ 5,266,089	\$ 15,581,106

**STATEMENT OF NET COST**

Year ended September 30

Program Costs	\$ 145,272	\$ 340,939	\$ 15,986	\$ (53,398)	\$ 448,799
Less Earned Revenue	-	(366,944)	-	145	(366,799)
Net Program Costs	\$ 145,272	\$ (26,005)	\$ 15,986	\$ (53,253)	\$ 82,000
Net Cost of Operations	\$ 145,272	\$ (26,005)	\$ 15,986	\$ (53,253)	\$ 82,000

**STATEMENT OF CHANGES IN NET POSITION**

Year ended September 30

Net Position Beginning of the Period	\$ 8,377,235	\$ 4,847	\$ 87,116	\$ 4,241,254	\$ 12,710,452
Net Cost of Operations	145,272	(26,005)	15,986	(53,253)	82,000
Budgetary Financing Sources	848,553	-	24,571	942,539	1,815,663
Other Financing Sources	(71)	(28,851)	(1,682)	32,439	1,835
Change in Net Position	\$ 703,210	\$ (2,846)	\$ 6,903	\$ 1,028,231	\$ 1,735,498
Net Position End of Period	\$ 9,080,445	\$ 2,001	\$ 94,019	\$ 5,269,485	\$ 14,445,950

As of September 30

(\$ in thousands)

**BALANCE SHEET****ASSETS**

	Maintenance Fund	Contributed Fund	Other Funds	Eliminations	Consolidated Total
Fund balance with Treasury	\$ 102,746	\$ 979,219	\$ 81,458	\$ 4,241,096	\$ 5,404,519
Investments	7,112,147	-	-	-	7,112,147
Accounts and Interest Receivable	475,359	2,660	5,532	(7,342)	476,209
Other Assets	700,665	30,998	937	-	732,600
Total Assets	\$ 8,390,917	\$ 1,012,877	\$ 87,927	\$ 4,233,754	\$ 13,725,475

**LIABILITIES and NET POSITION**

Accounts Payable and Other Liabilities	13,682	1,008,030	811	(7,500)	1,015,023
Total Liabilities	\$ 13,682	\$ 1,008,030	\$ 811	\$ (7,500)	\$ 1,015,023
Cumulative Results of Operations	8,377,235	4,847	87,116	4,241,254	12,710,452
Total Liabilities and Net Position	\$ 8,390,917	\$ 1,012,877	\$ 87,927	\$ 4,233,754	\$ 13,725,475

**STATEMENT OF NET COST**

Year ended September 30

Program Costs	\$ 38,739	\$ 464,408	\$ 17,146	\$ (53,085)	\$ 467,208
Less Earned Revenue	-	(499,196)	-	233	(498,963)
Net Program Costs	\$ 38,739	\$ (34,788)	\$ 17,146	\$ (52,852)	\$ (31,755)
Net Cost of Operations	\$ 38,739	\$ (34,788)	\$ 17,146	\$ (52,852)	\$ (31,755)

**STATEMENT OF CHANGES IN NET POSITION**

Year ended September 30

Net Position Beginning of the Period	\$ 7,598,849	\$ 12,085	\$ 82,560	\$ 3,126,032	\$ 10,819,526
Net Cost of Operations	38,739	(34,788)	17,146	(52,852)	(31,755)
Budgetary Financing Sources	836,548	-	24,291	996,135	1,856,974
Other Financing Sources	(19,423)	(42,026)	(2,589)	66,235	2,197
Change in Net Position	\$ 778,386	\$ (7,238)	\$ 4,556	\$ 1,115,222	\$ 1,890,926
Net Position End of Period	\$ 8,377,235	\$ 4,847	\$ 87,116	\$ 4,241,254	\$ 12,710,452

## Other Disclosures

All intragovernmental activity within USACE between funds from dedicated collections and other funds has been eliminated from the consolidated total column.

USACE funds from dedicated collections are presented by fund type vice individual fund due to the volume of individual funds from dedicated collections based on SFFAS No. 27, *Identifying and Reporting Earmarked Funds* as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*.

There has been no change in legislation during or subsequent to the reporting periods and before the issuance of the financial statements that significantly changes the purpose of these funds or that redirects a material portion of the accumulated balances.

USACE has the following Funds from Dedicated Collections as of September 30, 2013 and 2012:

### Maintenance Fund

Harbor Maintenance Trust Fund (HMTF). This fund was established by Title XIV of the Water Resources Development Act (the Act) of 1986, Public Law 99-662. The HMTF is authorized to recover 100% of USACE eligible operation and maintenance (O&M) expenditures for the maintenance of commercial navigation in harbors and channels as well as 100% of the O&M cost of St. Lawrence Seaway by the St. Lawrence Seaway Development Corporation. As provided in the Act, amounts in HMTF shall be available for making expenditures to carry out the functions specified in the Act and for the payment of all expenses of administration incurred by the U.S. Treasury, USACE, and the Department of Commerce. Collections are made into the trust fund from fees assessed on port use associated with imports, imported merchandise admitted into a foreign trade zone, passengers, and movements of cargo between domestic ports. The collections are invested and investment activity is managed by BFS. The revenue is received from the public and is an inflow of resources to the government. This fund utilizes receipt and expenditure accounts in accounting for and reporting the fund.

### Contributed Fund

Rivers and Harbors Contributed and Advance Funds. These funds are authorized by Title 33 USC 701h, 702f, and 703, establishes funding to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc., in the course of flood control and river/harbor maintenance. Whenever any state or political subdivision thereof shall offer to advance funds for a flood control project duly adopted and authorized by law, the Secretary may at his discretion, receive such funds and expend the same in the immediate prosecution of such work. Advances are from the public and are inflows of resources to the government. This fund utilizes both receipt and expenditure accounts in accounting for and reporting the fund.

### Other Funds

Coastal Wetlands Restoration Trust Fund. This fund is authorized by Title 16 USC 3951-3956. This title grants parallel authority to USACE, along with the Environmental Protection Agency, and the Fish and Wildlife Service to work with the state of Louisiana to develop, review, evaluate, and approve a plan that is proposed to achieve a goal of “no net loss of wetlands” in coastal Louisiana. USACE is also responsible for allocating the funds from dedicated collections among the named task force members. Federal contributions of the dedicated collections are established at 75% of project costs or 85% if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund, a trust with collections from excise taxes on fishing equipment, motorboat and small engine fuels, import duties, and interest.



Inland Waterways Trust Fund (IWTF). This fund is authorized by Title 26 USC 9506. The title made IWTF available for USACE expenditures for navigation, construction, and rehabilitation projects on inland waterways. Collections into the trust fund are from excise taxes on fuel used in commercial transportation on inland waterways. The revenue is received from the public and is an inflow of resources to the government. The collections are invested and investment activity is managed by the BFS. This fund utilizes receipt and expenditure accounts in accounting for and reporting the fund.

Special Recreation Use Fees. Title 16 United States Code (USC) 4601-6a granted USACE the authority to charge and collect fair and equitable Special Recreation Use Fees at recreation facilities and campgrounds located at lakes or reservoirs under the jurisdiction of USACE. Types of allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The revenue is received from the public and is an inflow of resources to the government. The purpose of the fund is to maintain and operate the recreation and camping facilities.

Hydraulic Mining in California. Debris, Title 33 USC 683 states that those operating hydraulic mines through which debris flows in part or in whole to a body restrained by a dam or other work erected by the California Debris Commission shall pay a tax as determined by the Federal Power Commission, now known as the Federal Energy Regulatory Commission (FERC). The tax is paid annually on a date fixed by FERC. Taxes imposed under this code are collected and then expended under the supervision of USACE and the direction of the Department of the Army. The revenue is received from the public and is an inflow of resources to the government. The purpose of the fund is for repayment of funds advanced by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States. Flood Control Act of 1954, Title 33 USC 701c-3, established that 75% of all funds received and deposited from the leasing of lands acquired by the U.S. for flood control, navigation and allied purposes, including the development of hydroelectric power, shall be returned to the state in which the property is located. USACE collects lease receipts into a receipt account. The revenue is received from the public and is an inflow of resources to the government. Funds are appropriated in the amount of 75% of the receipts in the following fiscal year and disbursed to the states. The funds may be expended by the states for the benefit of public schools and public roads of the county, or counties, in which such property is situated, or for defraying any of the expense of county government.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters. Title 16 USC 803f, 810, states that whenever a reservoir or other improvement is constructed by the U.S., FERC shall assess charges against any licensee directly benefited, and any amount so assessed shall be paid into the U.S. Treasury. The title further states that all charges arising from other licenses, except those charges established by FERC for purpose of administrative reimbursement, shall be paid to the U.S. Treasury from which specific allocations will be made. From the specific allocations, 50% of charges from all other licenses is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army (Secretary) for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

Fund for Nonfederal Use of Disposal Facilities (for dredged material). This fund was established by Title 33 USC 2326a. This title provides that the Secretary may permit the use of any dredged material disposal facility under the jurisdiction of, or managed by, the Secretary by a nonfederal interest if the Secretary determines that such use will not reduce the availability of the facility for project purposes. The Secretary may impose fees to recover capital, operation and maintenance costs associated with such use. Any monies received through collection of fees under this law shall be available to the Secretary, and shall be used by the Secretary, for the operation and maintenance of the disposal facility from which the fees were collected. The revenue is received from the public and is an inflow of resources to the government.

Special funds utilize both receipt and expenditure accounts in accounting for and reporting the fund.

## NOTE 20. LEASES

As of September 30  
(\$ in thousands)

	Asset Category		
	Building Space	Other	Total
<b>2013</b>			
<b>ENTITY AS LESSEE Operating Leases</b>			
<b>Future Payments Due</b>			
Fiscal Year			
2014	\$ 74,444	\$ 248	\$ 74,692
2015	75,149	42	75,191
2016	76,012	36	76,048
2017	76,901	22	76,923
2018	77,690	18	77,708
After 5 Years	404,873	47	404,920
<b>Total Future Lease Payments Due</b>	<b>\$ 785,069</b>	<b>\$ 413</b>	<b>\$ 785,482</b>

As of September 30, 2013, USACE has various non-cancelable operating leases mainly for office space and storage facilities maintained by many USACE Districts. Many of these leases contain clauses to reflect inflation and renewal options. USACE has no assets under capital lease.

As of September 30  
(\$ in thousands)

	2013 Easements
<b>ENTITY AS LESSOR</b>	
Operating Leases	
2014	\$ 4,422
2015	3,249
2016	2,743
2017	2,119
2018	1,800
After 5 Years	6,114
<b>Total Future Lease Payments</b>	<b>\$ 20,447</b>

USACE also has a small volume of operating leases for mostly easements. Private companies and individuals lease easements from USACE to operate marinas, restaurants, and other businesses on USACE lands.

**FY 2013 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI)**

Unaudited, See Accompanying Auditor's Report

**NONFEDERAL PHYSICAL PROPERTY**  
**Investment in Physical Property Owned by State and Local Governments**

*(Amount in millions)*

<b>Categories</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2010</b>	<b>FY 2009</b>
<b>Funded Assets:</b>					
Cost Share Projects	\$1,356	\$1,413	\$2,273	\$2,104	\$1,198
<b>Total</b>	<b>\$1,356</b>	<b>\$1,413</b>	<b>\$2,273</b>	<b>\$2,104</b>	<b>\$1,198</b>

The United States Army Corps of Engineers (USACE) – Civil Works incurs investments in Nonfederal Physical Property for the construction of physical property owned by state and local governments. USACE has the authority to enter into cost sharing agreements with nonfederal sponsors which are governed under numerous Water Resources Development Acts starting with the Act of 1986.

Investment values included in this report are based on Nonfederal Physical Property expenditures.

## FY 2013 REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Unaudited, See Accompanying Auditor's Report

As of September 30, 2013

### Real Property Deferred Maintenance and Repairs

Deferred maintenance and repair is defined as maintenance and repairs not performed when it should have been or was scheduled to be but delayed for a future period. Deferred maintenance and repair for FY 2013 was \$3.1 billion for Other Structures. Operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. The O&M needs are based on inspections of project features, engineering analyses and historical experience.

### Heritage Asset Condition

Condition of heritage assets is based on factors such as quality of design and construction, location, adequacy of maintenance performed, and continued usefulness. The United States Army Corps of Engineers (USACE) – Civil Works heritage assets overall condition is deemed to be fair; therefore, no significant deferred maintenance has been assessed.

### Disaggregated Schedule of Budgetary Resources by Major Fund

Statement of Federal Financial Accounting Standard 7 *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* requires information be presented by major budget account. USACE – Civil Works presents information by major fund which USACE believes provides a better presentation, as the USACE – Civil Works is a single program and aligns with our funding and management of the program.

## US Army Corps of Engineers - Civil Works

**COMBINED STATEMENT OF BUDGETARY RESOURCES - Unaudited**

For the year ended September 30, 2013

*(in thousands)*

	FUSRAP	Special Funds	Trust Funds	Borrowing Authority	Revolving Funds
<b>Budgetary Resources</b>					
Unobligated balance brought forward, October 1	\$ 3,938	\$ 3,241	\$ 191,236	\$ 4	\$ 502,875
Recoveries of prior year unpaid obligation	576	126	57,849	-	92,642
Other changes in unobligated balance	-	-	-	-	-
Unobligated balance from prior year budget authority, net	4,514	3,367	249,085	4	595,517
Appropriations (discretionary and mandatory)	99,921	18,655	976,063	-	-
Spending Authority from offsetting collections	20,569	3,062	-	31	8,164,050
Total Budgetary Resources	<u>\$ 125,004</u>	<u>\$ 25,084</u>	<u>\$ 1,225,148</u>	<u>\$ 35</u>	<u>\$ 8,759,567</u>

**Status of Budgetary Resources:**

Obligations Incurred	\$ 118,568	\$ 14,002	\$ 968,891	\$ 31	\$ 8,142,957
Unobligated balance, end of year					
Apportioned	6,436	11,082	256,242	-	-
Exempt from Apportionment	-	-	-	4	616,610
Unapportioned	-	-	15	-	-
Unobligated balance brought forward, end of year	6,436	11,082	256,257	4	616,610
Total Budgetary Resources	<u>\$ 125,004</u>	<u>\$ 25,084</u>	<u>\$ 1,225,148</u>	<u>\$ 35</u>	<u>\$ 8,759,567</u>

**Change in Obligated Balance:**

Unpaid obligations, brought forward, October 1 (gross)	\$ 48,404	\$ 5,799	\$ 303,121	\$ -	\$ 1,216,531
Obligations incurred	118,568	14,002	968,891	31	8,142,957
Outlays (gross) (-)	(101,496)	(18,190)	(1,003,130)	(31)	(8,067,702)
Recoveries of prior year unpaid obligations (-)	(576)	(126)	(57,849)	-	(92,642)
Unpaid Obligations, end of year (gross)	64,900	1,485	211,033	-	1,199,144
Uncollected payments, Federal sources, brought, October 1	(3,253)	-	-	-	(139,965)
Change in uncollected customer payments from Federal Sources (+ or -)	1,013	-	-	-	8,759
Uncollected payments, Federal sources, end of year (-)	(2,240)	-	-	-	(131,206)
Obligated balance, start of year (net)	45,151	5,799	303,121	-	1,076,566
Obligated balance, end of year (net)	<u>\$ 62,660</u>	<u>\$ 1,485</u>	<u>\$ 211,033</u>	<u>\$ -</u>	<u>\$ 1,067,938</u>

**Budget Authority and Outlays, Net:**

Budget authority, gross (discretionary and mandatory)	\$ 120,490	\$ 21,716	\$ 976,063	\$ 31	\$ 8,164,050
Actual offsetting collections (discretionary and mandatory) (-)	(21,582)	(3,061)	-	(2,583)	(8,172,809)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	1,013	-	-	-	8,759
Budget Authority, net (discretionary and mandatory)	<u>\$ 99,921</u>	<u>\$ 18,655</u>	<u>\$ 976,063</u>	<u>\$ (2,552)</u>	<u>\$ -</u>
Outlays, gross (discretionary and mandatory)	101,496	18,190	1,003,130	31	8,067,702
Actual offsetting collections (discretionary and mandatory) (-)	(21,582)	(3,061)	-	(2,583)	(8,172,809)
Outlays, net (discretionary and mandatory)	79,914	15,129	1,003,130	(2,552)	(105,107)
Distributed offsetting receipts	-	(66,190)	-	-	-
Agency Outlays, net (discretionary and mandatory)	<u>\$ 79,914</u>	<u>\$ (51,061)</u>	<u>\$ 1,003,130</u>	<u>\$ (2,552)</u>	<u>\$ (105,107)</u>

*The accompanying notes are an integral part of these financial statements.*



**COMBINED STATEMENT OF BUDGETARY RESOURCES - Unaudited**

For the year ended September 30, 2013

*(in thousands)*

	Contributed Funds	General Funds	FUSRAP ARRA	General ARRA	2013 Combined
<b>Budgetary Resources</b>					
Unobligated balance brought forward, October 1	\$ 663,719	\$ 7,231,123	\$ -	\$ 13,941	\$ 8,610,077
Recoveries of prior year unpaid obligation	8,919	223,452	-	31,786	415,350
Other changes in unobligated balance	-	(32)	-	-	(32)
Unobligated balance from prior year budget authority, net	672,638	7,454,543	-	45,727	9,025,395
Appropriations (discretionary and mandatory)	484,802	8,852,304	-	-	10,431,745
Spending Authority from offsetting collections	1,183	2,637,589	-	(4,648)	10,821,836
Total Budgetary Resources	<u>\$ 1,158,623</u>	<u>\$ 18,944,436</u>	<u>\$ -</u>	<u>\$ 41,079</u>	<u>\$ 30,278,976</u>

**Status of Budgetary Resources:**

Obligations Incurred	\$ 479,938	\$ 8,155,927	\$ -	\$ 36,885	\$ 17,917,199
Unobligated balance, end of year					
Apportioned	-	10,764,279	-	-	11,038,039
Exempt from Apportionment	678,686	24,217	-	-	1,319,517
Unapportioned	-	12	-	4,194	4,221
Unobligated balance brought forward, end of year	678,686	10,788,508	-	4,194	12,361,777
Total Budgetary Resources	<u>\$ 1,158,624</u>	<u>\$ 18,944,435</u>	<u>\$ -</u>	<u>\$ 41,079</u>	<u>\$ 30,278,976</u>

**Change in Obligated Balance:**

Unpaid obligations, brought forward, October 1 (gross)	\$ 315,613	\$ 6,170,944	\$ 39	\$ 314,281	\$ 8,374,732
Obligations incurred	479,938	8,155,927	-	36,885	17,917,199
Outlays (gross) (-)	(371,739)	(8,310,546)	(39)	(189,683)	(18,062,556)
Recoveries of prior year unpaid obligations (-)	(8,919)	(223,452)	-	(31,786)	(415,350)
Unpaid Obligations, end of year (gross)	414,893	5,792,873	-	129,697	7,814,025
Uncollected payments, Federal sources, brought, October 1	(113)	(2,018,561)	-	(14,835)	(2,176,727)
Change in uncollected customer payments from Federal Sources (+ or -)	(2)	213,620	-	11,995	235,385
Uncollected payments, Federal sources, end of year (-)	(115)	(1,804,941)	-	(2,840)	(1,941,342)
Obligated balance, start of year (net)	315,500	4,152,383	39	299,446	6,198,005
Obligated balance, end of year (net)	<u>\$ 414,778</u>	<u>\$ 3,987,932</u>	<u>\$ -</u>	<u>\$ 126,857</u>	<u>\$ 5,872,683</u>

**Budget Authority and Outlays, Net:**

Budget authority, gross (discretionary and mandatory)	\$ 485,985	\$ 11,489,894	\$ -	\$ (4,648)	\$ 21,253,581
Actual offsetting collections (discretionary and mandatory) (-)	(1,181)	(2,754,904)	-	(7,347)	(10,963,467)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(2)	213,620	-	11,995	235,385
Budget Authority, net (discretionary and mandatory)	<u>\$ 484,802</u>	<u>\$ 8,948,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,525,499</u>
Outlays, gross (discretionary and mandatory)	371,739	8,310,546	39	189,683	18,062,556
Actual offsetting collections (discretionary and mandatory) (-)	(1,181)	(2,754,904)	-	(7,347)	(10,963,467)
Outlays, net (discretionary and mandatory)	370,558	5,555,642	39	182,336	7,099,089
Distributed offsetting receipts	(484,802)	(255,714)	-	-	(806,706)
Agency Outlays, net (discretionary and mandatory)	<u>\$ (114,244)</u>	<u>\$ 5,299,928</u>	<u>\$ 39</u>	<u>\$ 182,336</u>	<u>\$ 6,292,383</u>

*The accompanying notes are an integral part of these financial statements.*

## US Army Corps of Engineers - Civil Works

**COMBINED STATEMENT OF BUDGETARY RESOURCES - Unaudited**

For the year ended September 30, 2012

*(in thousands)*

	FUSRAP	Special Funds	Trust Funds	Borrowing Authority	Revolving Funds
<b>Budgetary Resources</b>					
Unobligated balance brought forward, October 1	\$ 4,634	\$ 4,358	\$ 187,726	\$ 4	\$ 236,319
Recoveries of prior year unpaid obligation	-	-	-	-	-
Other changes in unobligated balance	-	-	-	-	-
Unobligated balance from prior year budget authority, net	4,634	4,358	187,726	4	236,319
Appropriations (discretionary and mandatory)	109,000	20,709	1,457,597	-	-
Spending Authority from offsetting collections	4,715	-	(422,779)	90	8,747,806
Total Budgetary Resources	<u>\$ 118,349</u>	<u>\$ 25,067</u>	<u>\$ 1,222,544</u>	<u>\$ 94</u>	<u>\$ 8,984,125</u>

**Status of Budgetary Resources:**

Obligations Incurred	\$ 114,411	\$ 21,826	\$ 1,031,308	\$ 90	\$ 8,481,250
Unobligated balance, end of year					
Apportioned	3,938	3,241	191,236	-	-
Exempt from Apportionment	-	-	-	4	502,875
Unapportioned	-	-	-	-	-
Unobligated balance brought forward, end of year	3,938	3,241	191,236	4	502,875
Total Budgetary Resources	<u>\$ 118,349</u>	<u>\$ 25,067</u>	<u>\$ 1,222,544</u>	<u>\$ 94</u>	<u>\$ 8,984,125</u>

**Change in Obligated Balance:**

Unpaid obligations, brought forward, October 1 (gross)	\$ 85,881	\$ 1,875	\$ 272,476	\$ -	\$ 1,432,462
Obligations incurred	114,411	21,825	1,031,308	90	8,481,251
Outlays (gross) (-)	(151,888)	(17,901)	(1,000,664)	(90)	(8,697,182)
Recoveries of prior year unpaid obligations (-)					
Unpaid Obligations, end of year (gross)	48,404	5,799	303,120	-	1,216,531
Uncollected payments, Federal sources, brought, October 1	(10,690)	-	-	-	(182,667)
Change in uncollected customer payments from Federal Sources (+ or -)	7,437	-	-	-	42,703
Uncollected payments, Federal sources, end of year (-)	(3,253)	-	-	-	(139,964)
Obligated balance, start of year (net)	75,191	1,875	272,476	-	1,249,795
Obligated balance, end of year (net)	<u>\$ 45,151</u>	<u>\$ 5,799</u>	<u>\$ 303,120</u>	<u>\$ -</u>	<u>\$ 1,076,567</u>

**Budget Authority and Outlays, Net:**

Budget authority, gross (discretionary and mandatory)	\$ 113,714	\$ 20,709	\$ 1,034,819	\$ 90	\$ 8,747,806
Actual offsetting collections (discretionary and mandatory) (-)	(12,151)	-	-	(931)	(8,790,509)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	7,437	-	-	-	42,703
Budget Authority, net (discretionary and mandatory)	<u>\$ 109,000</u>	<u>\$ 20,709</u>	<u>\$ 1,034,819</u>	<u>\$ (841)</u>	<u>\$ -</u>
Outlays, gross (discretionary and mandatory)	151,888	17,901	1,000,664	90	8,697,182
Actual offsetting collections (discretionary and mandatory) (-)	(12,151)	-	-	(931)	(8,790,509)
Outlays, net (discretionary and mandatory)	139,737	17,901	1,000,664	(841)	(93,327)
Distributed offsetting receipts	-	(60,045)	-	-	-
Agency Outlays, net (discretionary and mandatory)	<u>\$ 139,737</u>	<u>\$ (42,144)</u>	<u>\$ 1,000,664</u>	<u>\$ (841)</u>	<u>\$ (93,327)</u>

*The accompanying notes are an integral part of these financial statements.*

**COMBINED STATEMENT OF BUDGETARY RESOURCES - Unaudited**

For the year ended September 30, 2012

*(in thousands)*

	Contributed Funds	General Funds	FUSRAP ARRA	General ARRA	2012 Combined
<b>Budgetary Resources</b>					
Unobligated balance brought forward, October 1	\$ 592,889	\$ 7,450,596	\$ 4	\$ 51,958	\$ 8,528,488
Recoveries of prior year unpaid obligation	-	93,459	-	24	93,483
Other changes in unobligated balance	-	(1,664)	-	-	(1,664)
Unobligated balance from prior year budget authority, net	592,889	7,542,391	4	51,982	8,620,307
Appropriations (discretionary and mandatory)	400,260	5,654,287	-	-	7,641,853
Spending Authority from offsetting collections	2,283	2,368,560	-	(1,725)	10,698,950
Total Budgetary Resources	\$ 995,432	\$ 15,565,238	\$ 4	\$ 50,257	\$ 26,961,110

**Status of Budgetary Resources:**

Obligations Incurred	\$ 331,713	\$ 8,334,115	\$ 4	\$ 36,316	\$ 18,351,033
Unobligated balance, end of year					
Apportioned	-	7,213,526	-	12	7,411,953
Exempt from Apportionment	663,719	17,585	-	-	1,184,183
Unapportioned	-	12	-	13,929	13,941
Unobligated balance brought forward, end of year	663,719	7,231,123	-	13,941	8,610,077
Total Budgetary Resources	\$ 995,432	\$ 15,565,238	\$ 4	\$ 50,257	\$ 26,961,110

**Change in Obligated Balance:**

Unpaid obligations, brought forward, October 1 (gross)	\$ 473,871	\$ 7,252,681	\$ 13,367	\$ 872,844	\$ 10,405,457
Obligations incurred	331,713	8,334,115	5	36,315	18,351,033
Outlays (gross) (-)	(489,971)	(9,322,392)	(13,332)	(594,855)	(20,288,275)
Recoveries of prior year unpaid obligations (-)	-	(93,459)	-	(24)	(93,483)
Unpaid Obligations, end of year (gross)	315,613	6,170,945	40	314,280	8,374,732
Uncollected payments, Federal sources, brought, October 1	(4)	(2,825,007)	-	(79,333)	(3,097,701)
Change in uncollected customer payments from Federal Sources (+ or -)	(109)	806,446	-	64,497	920,974
Uncollected payments, Federal sources, end of year (-)	(113)	(2,018,561)	-	(14,836)	(2,176,727)
Obligated balance, start of year (net)	473,867	4,427,674	13,367	793,511	7,307,756
Obligated balance, end of year (net)	\$ 315,500	\$ 4,152,384	\$ 40	\$ 299,444	\$ 6,198,005

**Budget Authority and Outlays, Net:**

Budget authority, gross (discretionary and mandatory)	\$ 402,543	\$ 8,022,847	\$ -	\$ (1,725)	\$ 18,340,803
Actual offsetting collections (discretionary and mandatory) (-)	(2,174)	(3,085,131)	-	(62,772)	(11,953,668)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(109)	806,446	-	64,497	920,974
Budget Authority, net (discretionary and mandatory)	\$ 400,260	\$ 5,744,162	\$ -	\$ -	\$ 7,308,109
Outlays, gross (discretionary and mandatory)	489,971	9,322,392	13,332	594,855	20,288,275
Actual offsetting collections (discretionary and mandatory) (-)	(2,174)	(3,085,131)	-	(62,772)	(11,953,668)
Outlays, net (discretionary and mandatory)	487,797	6,237,261	13,332	532,083	8,334,607
Distributed offsetting receipts	(400,260)	(92,340)	-	-	(552,645)
Agency Outlays, net (discretionary and mandatory)	\$ 87,537	\$ 6,144,921	\$ 13,332	\$ 532,083	\$ 7,781,962

*The accompanying notes are an integral part of these financial statements.*

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**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

December 13, 2013

MEMORANDUM FOR COMMANDING GENERAL AND CHIEF OF ENGINEERS, U.S.  
ARMY CORPS OF ENGINEERS

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works,  
FY 2013 and FY 2012 Basic Financial Statements (Report No. DODIG-2014-023)

We contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of U.S. Army Corps of Engineers, Civil Works (USACE CW), as of September 30, 2013 and 2012, for the years then ended. The contract required that KPMG LLP conduct the audit in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008. KPMG LLP's audit resulted in an unmodified opinion. The results of KPMG LLP's audit are presented in the attached report.

KPMG LLP concluded that the financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. KPMG LLP's report also discusses three significant deficiencies related to USACE CW internal controls and two instances of non-compliance with laws and regulations.

We reviewed KPMG LLP's report and related documentation and discussed audit results with KPMG LLP representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on USACE CW's financial statements, conclusions about the effectiveness of internal controls, conclusions on whether USACE CW's financial management systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

*Lorin T. Venable*

Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

Attachment:  
As stated





KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Commanding General, Chief of Engineers,  
United States Army Corps of Engineers – Civil Works; and,  
United States Department of Defense Inspector General:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Army Corps of Engineers – Civil Works (USACE – Civil Works), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as “consolidated financial statements”).

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin Number (No.) 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Army Corps of Engineers – Civil Works as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discussed in Note 1.X to the consolidated financial statements, USACE – Civil Works has elected to change its method of accounting for recoveries of prior year obligations in FY 2013. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Assistant Secretary of the Army (Civil Works) and Message from the USACE Chief Financial Officer are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The Message from the Assistant Secretary of the Army (Civil Works) and Message from the USACE Chief Financial Officer have not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



USACE – Civil Works  
Independent Auditors' Report  
December 11, 2013  
Page 3 of 4

## **Other Reporting Required by *Government Auditing Standards***

### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered USACE – Civil Works' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of USACE – Civil Works' internal control. Accordingly, we do not express an opinion on the effectiveness of USACE – Civil Works' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in Exhibit I as items A, B, and C, that we consider to be significant deficiencies.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether USACE – Civil Works' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which is described in Exhibit II as item D.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, described in Exhibit II, as item E, where USACE – Civil Works' financial management systems did not substantially comply with the (1)



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Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

#### ***USACE – Civil Works' Response to Findings***

The USACE – Civil Works' response to the findings identified in our audit is described in Exhibits I and II. The USACE – Civil Works' responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

#### ***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of USACE – Civil Works' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Washington, DC  
December 11, 2013



**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Significant Deficiencies**  
**September 30, 2013**

**A. Financial Management Systems**

The United States Army Corps of Engineers – Civil Works (USACE – Civil Works) has not implemented adequate information technology (IT) controls to protect its financial management systems as required by the Office of Management and Budget (OMB) Circular Number (No.) A-130, *Management of Federal Information Resources*. These conditions could affect USACE – Civil Work's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. USACE – Civil Works has made progress in remediating previously identified IT deficiencies, however continued effort is needed to address weaknesses in the processes and procedures governing access controls, configuration management and security management. Specifically, we identified the following:

Access Control Weaknesses

USACE – Civil Works management needs to strengthen access controls at the application, database, operating system and physical security levels. At the application level, USACE – Civil Works has not implemented a process to ensure that Corps of Engineers Financial Management System (CEFMS) user access rights are re-certified annually. At the database level, USACE – Civil Works has not established a formalized process for logging and monitoring database administrator activity. At the operating system level, USACE – Civil Works has not established a formalized process for logging and monitoring operating system administrator activity and they did not maintain documentation to evidence that monthly recertification of CEFMS operating system accounts was performed. Additionally, USACE – Civil Works was unable to evidence that a Security Readiness Review (SRR) was successfully completed for all CEFMS production servers and that associated findings/issues were remediated in a timely manner. Lastly, USACE – Civil Works has not established adequate physical security controls over the server rooms where the CEFMS application is hosted at one location. By not implementing appropriate processes and procedures, there is an increased risk that financial data could be modified inappropriately, which may have an adverse affect on the availability and integrity of financial data.

While USACE – Civil Works management made some enhancements to authorize and restrict access to the CEFMS development environment additional progress is required. Specifically, a system account was granted operating system privileges that were not required based on the business purpose for this account, and there is no monitoring of the activity performed by the system administrator(s) with privileged access to the operating system environment. This increases the risk that unauthorized changes could be applied to the production environment, causing adverse affects on the availability or processing/data integrity of the application without management's awareness/approval.

Configuration Management Control Weaknesses

USACE – Civil Works management does not properly document configuration changes made to the operating system and database environments supporting CEFMS. Specifically, for operating system patches and database security patches, USACE – Civil Works does not maintain evidence that the patches were successfully tested, including a test plan outlining the required test steps and corresponding results. Additionally, management approval to migrate database security patches into production is not maintained. Further, operating system configuration management documentation does not describe the steps required to successfully test an operating system change, nor does it describe how operating system changes are formally tracked and documented, including approval for release to production upon completion of successful testing. Lack of established change management procedures could result in an increased risk that change management activities will be performed inconsistently and that unauthorized



**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Significant Deficiencies**  
**September 30, 2013**

and/or potentially unintended changes may be implemented into the production environment, which may adversely impact system availability and the processing and data integrity of supported applications.

Security Management Control Weaknesses

USACE Chief Information Officer (CIO) management does not periodically monitor Army Corps of Engineers Information Technology (ACE-IT) CorpsNet Plans of Action and Milestones (POA&Ms) for current remediation status and compliance with the Federal Information Security Management Act (FISMA) and Department of Defense (DoD) guidance. The lack of periodic monitoring and awareness by the USACE CIO for identified IT security weaknesses may result in the weaknesses not being remediated in a timely fashion.

These control weaknesses have occurred because USACE – Civil Works management has not established effective periodic reviews to maintain and enforce standard operating procedures and had not allocated resources to develop and implement detailed access control, configuration management and security management procedures and routinely monitor them to ensure adherence.

***Recommendations***

We recommend USACE – Civil Works management improve the access controls, configuration management, and security management controls over its financial information systems in order to help maintain logical security and protection of the information systems as follows:

1. Develop and formally document procedures for ensuring CEFMS application user access rights are re-certified on an annual basis.
2. Develop and formally document procedures for logging and monitoring both database and operating system administrator activity.
3. Enhance the existing monthly operating system recertification process, enforce existing privileged user access management policies, enforce existing server room physical access procedures, and implement a periodic review process that requires the use of system-generated physical access listings. This would include conducting a formal review of the Continuum physical security system to investigate alternative methods to be able to create a system generated user listing report of only active users for a specific door/facility.
4. Review, on a periodic basis, privileged operating system access to the CEFMS development server, implement logical segregation of duties on the CEFMS development server, and implement one or more independently operated monitoring controls over the activities of the individuals with administrative access to the CEFMS development server.
5. Develop and formally document configuration management procedures for operating system and database changes; periodically communicate these procedures to individuals performing the control.
6. Require system and agency POA&Ms be submitted at least quarterly to USACE CIO management for review.
7. Continue in its efforts to resolve the technical issue(s) that have prevented the SRR scans from being completed on all CEFMS production servers.

**Management Response**

USACE concurs with the findings and will take corrective action to cure all significant deficiencies.

**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Significant Deficiencies**  
**September 30, 2013**

**B. Financial Oversight and Reporting**

Maintaining effective financial oversight and reporting controls assist management to prevent, detect, and correct errors in a timely manner. In the performance of our fiscal year (FY) 2013 procedures we identified deficiencies in budgetary accounting, financial reporting, and the processing/recording of journal vouchers which when aggregated could cause misstatement to the financial statements and related footnotes.

Budgetary Accounting

Our FY 2013 procedures identified deficiencies in internal controls over undelivered orders (UDO) balances (unliquidated obligations) and recoveries of prior year obligations (recoveries). Specifically, USACE – Civil Works’ internal controls, such as the tri-annual review, are not operating effectively to identify invalid, inaccurate, and/or unsupported UDO balances and recovery transactions and could misstate balance.

Financial Reporting

We noted deficiencies in internal controls related to accounting for and reporting heritage assets. Specifically, USACE – Civil Works included two heritage assets that they did not own on the heritage asset listing. USACE – Civil Works did not review all of its historical assets for inclusion in the heritage asset listing to determine that they owned them.

USACE – Civil Works does not consistently review the lease schedule for inclusion in the financial statements and related footnotes. Specifically, USACE – Civil Works included two lease amounts in the lease schedule that did not agree to the amount in the lease agreements.

We noted the potential inappropriate inclusion of a deposit fund which created a reconciling item between the Standard Form 133s, *Reports on Budget Execution and Budgetary Resources* used in the preparation of the President’s Budget and the FY 2013 USACE – Civil Works Statement of Budgetary Resources. Title 40 United States Code (USC) Section 9501 only provides USACE – Civil Works immediate superintendence rather than ownership and operational authority over the deposit fund.

Preparation and Related Review and Approval of Journal Vouchers

We noted internal control deficiencies related to the completeness, existence, accuracy, obligations and rights and presentation of CEFMS and Department of Defense Reporting System (DDRS) journal vouchers. Further, USACE – Civil Works eliminated unreconciled variances by recording “unsupported” journal vouchers to reclassify amounts to complete the financial statement preparation process.

The U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*, Page 15, states that “transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Significant Deficiencies**  
**September 30, 2013**

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states the following:

“Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency’s ability to meet its objectives, would be prevented or detected in a timely manner.”

***Recommendations***

We recommend USACE – Civil Works management:

1. De-obligate invalid obligations in a timely manner (i.e., prior to fiscal year-end).
2. Update system posting logic to reflect proper accounting and recording of recovery transactions.
3. Strengthen policies and procedures to ensure proper accounting and reporting for heritage assets and leases.
4. Investigate the deposit fund further and revise their accounting treatment of the deposit fund to be in accordance with the guidance provided under OMB Circular No. A-11.
5. Develop policies and procedures to enhance the internal controls over the completeness, existence, accuracy, rights and obligations, and presentation of journal vouchers and to identify and correct variances between federal expenses recorded in the DDRS trial balance and the trading partner activity associated with these expenses in a timely manner.

**Management Response**

USACE concurs with the findings and will take corrective action to cure all significant deficiencies.

**C. General Property, Plant, and Equipment**

Property, Plant & Equipment (PP&E) is the largest line item on the USACE – Civil Works financial statements. During our FY 2013 audit, we noted that USACE – Civil Works has designed and implemented controls over PP&E throughout Civil Works Districts. However, continued improvements are needed to further minimize the potential that misstatements will not be prevented or detected and corrected on a timely basis. Our specific findings are as follows:

Certain PP&E matters were not accounted for timely in CEFMS. Management did not adjust CEFMS in a timely manner for: (1) transactions management identified as those that should have been capitalized; (2) transactions that should have been expensed; and (3) transactions that should have been transferred from Construction in Progress (CIP) to completed PP&E. Additionally, USACE – Civil Works did not properly account for PP&E at specific long-term projects as we noted certain equipment items were recorded as CIP and were not placed in service as completed PP&E and depreciated. The errors identified related to transactions originating in the current and prior years.

Communications within some Districts remain inconsistent and sometimes do not occur timely. In some cases, resource management does not follow-up with operations personnel regarding unusual items related to PP&E. In other cases, operations personnel were aware of certain matters but did not communicate these matters to resource management and did not consider the accounting impact to PP&E. Additionally, USACE – Civil Works did not consistently perform or complete management reviews and reconciliations of PP&E that are designed to address these conditions.

## Exhibit I, continued

**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Significant Deficiencies**  
**September 30, 2013**

Statement of Federal Financial Accounting Standards (SFFAS) No. 6 *Accounting for Property, Plant, and Equipment*, provides guidance for Federal entities in accounting for PP&E transactions. The Army Corps of Engineers Regulations, Engineering Regulation (ER) 37-1-30, “Financial Administration – Accounting and Reporting,” contains general asset accounting policies, including accounting for CIP and PP&E. These policies include Civil Works-specific items such as accounting for cost-shared projects, the Washington Aqueduct, projects that include a hydropower element, and the revolving fund. The USACE – Civil Works FY 2013 PP&E test plan titled “USACE Test Plan 1 PP&E FY2013” provides policies and procedures to strengthen controls over PP&E reconciliations and transactions.

**Recommendations**

We recommend that USACE – Civil Works:

1. Ensure all Districts fully implement controls related to PP&E (including CIP) management reviews, reconciliations, supporting documentation, timely recording in CEFMS and communications.
2. Implement CIP controls designed to prevent capitalization and expense misclassification errors.

**Management Response**

USACE concurs with the findings and will take corrective action to cure all significant deficiencies.

**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Summary of Noncompliance**  
**September 30, 2013**

***D. Federal Managers Financial Integrity Act of 1982 (FMFIA)***

The Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Internal Control*, requires agencies and Federal managers to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls.

We noted the United States Army Corps of Engineers – Civil Works (USACE – Civil Works) has not established effective systems, processes, policies and procedures to evaluate and report on internal accounting and administrative controls, and conformance of accounting systems to properly and accurately report on compliance with Sections FMFIA Sections 2 and 4.

***Recommendations***

We recommend USACE – Civil Works management continue to improve its' FMFIA process by developing more thorough corrective action plans, correcting system limitations, and ensuring annual assurance statements agree in both opinion and material weaknesses reported.

***Management Response***

USACE concurs with the findings and will take corrective action to cure all of the non-compliance items listed above.

***E. Federal Financial Management Improvement Act (FFMIA) of 1996***

Section 803(a) of FFMIA, requires that agency Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the United States Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. We noted that USACE – Civil Works did not comply with the three requirements of FFMIA. The reasons for non-compliance are reported in Exhibit I.

***Recommendations***

We recommend USACE – Civil Works management improve its processes to ensure compliance with FFMIA by updating its financial management systems to comply with accounting principles, ensuring compliance with USSGL requirements and Federal system requirements.

***Management Response***

USACE concurs with the findings and will take corrective action to cure all of the non-compliance items listed above.







We are interested in your feedback regarding the content of this report.  
Please feel free to e-mail your comments to [AAFS@hqda.army.mil](mailto:AAFS@hqda.army.mil) or write to:

**Department of the Army**  
Office of the Deputy Assistant Secretary of the Army  
*(Financial Management and Comptroller)*  
Office of the Financial Reporting Directorate  
Room 3A312, 109 Army Pentagon  
Washington, DC 20310-0109

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## THE SOLDIER'S CREED

I am an American Soldier.  
I am a Warrior and a member of a team.  
I serve the people of the United States  
and live the Army Values.

I will always place the mission first.  
I will never accept defeat.  
I will never quit.  
I will never leave a fallen comrade.

I am disciplined, physically and mentally tough,  
trained and proficient in my warrior tasks and  
drills. I always maintain my arms,  
my equipment and myself.

I am an expert and I am a professional.

I stand ready to deploy, engage, and  
destroy the enemies of the United States  
of America in close combat.

I am a guardian of freedom and the  
American way of life.

I am an American Soldier.

